



Economic Intelligence Weekly Review

10 November 1977

Secret

ER EIW 77-045

Copy No 597

25X1

Approved For Release 2002/08/12 : CIA-RDP79B00457A000300030001-7

Approved For Release 2002/08/12 : CIA-RDP79B00457A000300030001-7

SECRET

25X1

ECONOMIC INTELLIGENCE WEEKLY REVIEW

10 November 1977

OPEC Price Hike Would Dampen Already Sluggish Economic Pace	1
A 10-percent increase in oil prices would reduce 1978 Big Seven GNP by one-half percent, raise national inflation rates by 0.5 to 1.3 percentage points, and add \$7.3 billion to the combined trade deficit.	
Most Importers Unlikely To Appeal for OPEC Restraint	3
Foreign governments are not likely to take a strong open stand against an oil price increase despite the potential negative impact on their economies.	
Italy: Balance of Payments Looking Good	6
The balance of payments has made a sharp turnaround from last year's deficit, thanks to domestic austerity, record tourist receipts, and extensive bank borrowing abroad.	
Poland: Possible Rescheduling of Hard Currency Debt	10
By yearend the hard currency debt will have climbed to \$13 billion, and the financing of trade deficits and debt service obligations will have become even more difficult.	
Caribbean Economies: Gloomy Situation To Continue	14
Balance-of-payments problems have contributed to anemic growth, mounting unemployment, and increased trade restrictions.	
Note	
Coffee Producers Uniting on Price Policy	18
Publications of Interest, Statistics	

i

SECRET

SECRET

25X1

Articles

**OPEC PRICE HIKE WOULD DAMPEN ALREADY SLUGGISH
ECONOMIC PACE**

A 10-percent OPEC price hike at yearend would damage Big Seven economic performance in 1978 as follows: (a) an average loss of one-half percent in GNP compared with what it otherwise would be; (b) a rise of national inflation rates of between 0.5 and 1.3 percentage points; and (c) an increase in the combined trade deficit of \$7.3 billion, with the United States accounting for 40 percent of the rise. Such a boost in oil prices would thus retard an already disappointing recovery process, which has been marked by persistent large-scale unemployment, endemic inflation, a near-crisis in investor confidence, and dalliance with protectionist measures. If consumer confidence were weakened by these further adverse developments—for example, if the rate of saving went up by 1 percentage point—overall growth in the Big Seven would be only one-half the rate now projected.

The smaller Free World industrial nations would be hit even harder by the hypothesized 10-percent increase. For one thing, the direct contractionary impact on domestic demand would be larger since a higher proportion of their income goes for imported oil. Second, their heavy reliance on sales to major industrial markets also makes many of them vulnerable to an oil-induced shrinkage in Big Seven demand. The smaller countries as a group would suffer a 0.6-percent loss in GNP and a \$2 billion deterioration in their trade balance. A number of these countries already are grappling with serious growth or payments problems or both.

As for non-OPEC LDCs, the oil price rise would worsen their combined current account deficit by adding, directly and indirectly, \$2.3 billion to import costs. These LDCs would need to draw down foreign exchange reserves still further or seek additional foreign loans if losses in domestic growth and consumption are to be avoided.

25X1

10 November 1977

SECRET

SECRET

Big Seven: Impact on Real 1978 GNP of a 10-Percent Oil Price Rise

	Percent Change		
	Total Impact	Oil-Related Losses ¹	Oil-Related Gains ²
United States	-0.4	-0.6	0.2
Japan	-0.8	-1.2	0.4
West Germany	-0.5	-0.8	0.4
France	-0.6	-1.0	0.4
United Kingdom	-0.1	-0.5	0.3
Italy	-0.9	-1.3	0.4
Canada	-0.2	-0.4	0.2
Weighted Average	-0.5	-0.8	0.3

¹ Direct and indirect GNP losses due to higher oil prices.

² Direct and indirect GNP gains due to price rises for exports to OPEC.

Big Seven: Impact on 1978 Inflation of a 10-Percent Oil Price Rise

	Percentage Point Change		
	GNP Deflator Index	Consumer Price Index	Wholesale Price Index
United States	0.5	0.5	0.5
Japan	1.0	0.9	1.5
West Germany	0.7	0.6	1.0
France	0.8	0.7	1.3
United Kingdom	1.3	1.2	1.1
Italy	1.1	1.0	1.3
Canada	0.6	0.5	0.5

Big Seven: Change in 1978 Trade Due to a 10-Percent Oil Price Rise

	Million US \$			
	Oil Imports	Non-Oil Imports	Exports ¹	Total Trade Deficit
Total	10,080	-2,490	280	7,310
United States	3,970	-660	160	3,150
Japan	2,650	-490	270	1,890
West Germany	1,230	-450	-160	940
France	1,000	-370	10	620
United Kingdom	270	-70	100	100
Italy	910	-340	110	460
Canada	50	-110	-210	150

¹ Including an increase in exports to OPEC countries resulting from the higher oil revenues due to an assumed 10-percent price hike. These increases total \$670 million for the United States, \$490 million for Japan, \$440 million for West Germany, \$270 million for France, \$270 million for the United Kingdom, \$220 million for Italy, and \$50 million for Canada.

SECRET

In calculating the results above, we assumed that the 10-percent price rise would affect all oil moving in international trade. We further assumed that Big Seven fiscal policies would not be adjusted either to offset or to reinforce the contractionary effects of an oil price hike and that monetary policy would be neutral—that is, the money supply would be permitted to adjust to changes in the demand for money stemming from the oil price hike.

In reality, policy reactions would differ from country to country because of differences in the impact of the price hike and in the seriousness of unemployment, inflation, and international indebtedness. Among the Big Seven countries, for example, Italy would be a big loser, with a 0.9-percent loss in GNP. Japan, while having to pay nearly \$3 billion more for its oil, is obviously in a better position to absorb the blow than Italy. Among the smaller industrial countries, the Netherlands and Norway would make out reasonably well because of their large net exports of oil and gas, which are sold at world prices. Turkey, on the other hand, could be brought to the financial breaking point by the extra \$140 million it would have to pay for oil imports. Brazil, hit by sharp declines in the prices of key exports, would find great difficulty in absorbing a \$400 million to \$500 million increase in its oil bill.

* * * * *

MOST IMPORTERS UNLIKELY TO APPEAL FOR OPEC RESTRAINT

No foreign government is likely to beat the drums against an oil price increase despite the potential negative impact on its economy. Most developed countries are convinced that they would have no influence on OPEC by themselves and very little more by acting in concert with the United States. The non-OPEC LDCs, individually or as a group, will not take an open stand against OPEC and certainly would not join in a US appeal, even though many might privately welcome it.

Developed Countries

The developed countries maintain that only the United States can have an impact on OPEC decisionmaking. They believe that the key to US influence is its role in the Arab-Israeli dispute. The West Europeans and Japanese see their own Middle East policies as more even-handed than those of the Americans but have little hope of influencing thinking in Washington. These governments also cite increasing US demand for imported oil as the chief economic pressure behind an OPEC price rise. In their view, the lack of an effective US national energy policy undercuts any appeal to OPEC to hold the line on prices.

10 November 1977

SECRET

3

SECRET

Since government attitudes toward OPEC actions are shaped more by political than economic realities, the severity of the economic impact of an oil price increase is a poor guide to a country's political response. To date, none of the developed country governments has indicated interest in a concerted move against a price hike. While we anticipate that several oil importing countries would be willing to join the United States in public and private appeals to OPEC countries, a number of others would stand aloof. The United Kingdom and Norway, which have their own oil, would be unlikely to do anything.

Among the major foreign industrial nations, West Germany, Japan, and Canada probably would be receptive in varying degrees to a US initiative to forestall an OPEC price rise:

The *West Germans*, who have been protected from the full impact of OPEC price rises by the appreciation of the Deutschmark, believe that an appeal would carry little weight, particularly in view of the inability of the United States to curb demand for imported oil.

The *Japanese*, determined to avoid even the appearance of confrontation with their Arab suppliers, probably would endorse a demarche only if it were supported by numerous other developed countries.

The *Canadians* have few political hangups regarding the Middle East and probably would urge OPEC restraint; Ottawa already is dipping into general tax revenues to subsidize prices in oil-short eastern Canada.

Among the smaller developed countries with large current account deficits, Austria and Denmark would likely support an appeal to OPEC. Both are relying on export growth to pull them out of the doldrums and thus fear the adverse effect of an oil price rise on their trading partners. Portugal might be persuaded to go along but would need prodding. Lisbon is likely to be extremely cautious in the wake of Arab reaction to its recent recognition of Israel.

A sizable group of developed countries, most of which already are contending with serious balance-of-payments problems, see no advantage to a consumer country plea to OPEC:

The *French* probably would shun what they consider a futile gesture, which inevitably would smack of confrontation.

The *Italians* want to preserve their perceived role as a bridge between the Middle East and North Africa and Western Europe and would be reluctant to join any action that might jeopardize this role or the numerous barter deals Italian firms have arranged with OPEC countries.

SECRET

The *Spanish*, who do not recognize Israel and took a pro-Arab stance during the 1973 war, probably could not be persuaded of the value of an appeal to OPEC; Madrid has received about \$150 million in loans from the Saudis this year and does not want to close the door to future borrowing.

The *Turks* believe that OPEC has the right to set prices where it will, and they would be unlikely to work against a price rise for fear of losing what few benefits they receive from their large concessionary oil contract with Iraq.

Two developed countries—the United Kingdom and Norway—probably consider silence the best policy. Norway already is a net oil exporter, and the United Kingdom is expected to become a net exporter by 1980; both have consistently pegged their own oil prices to those of OPEC.

Non-OPEC LDCs

Despite private grumblings about OPEC stinginess, most non-OPEC LDCs are willing to suffer another 10-percent oil price rise without public protest. Any appeal to OPEC would be independent of the developed countries' positions; the non-OPEC LDCs would not risk their prized political solidarity by joining a US-sponsored effort:

Brazil, which has the largest oil bill among the LDCs, has been courting Arab favor and capital since the 1973 embargo and probably would once again press OPEC for preferential treatment for all LDCs.

India already has privately expressed concern to OPEC members about a further oil price increase but is unlikely to speak out publicly against countries that regularly provide substantial loans. Officials in New Delhi maintain that they have no right to criticize OPEC because its members were so long "exploited by colonial powers."

Mexico, a net oil exporter, would tacitly support a price hike by OPEC and then follow suit.

The small African states do not want to offend OPEC countries and thereby risk losing the little aid that they receive, even though their prospects for getting more assistance are not all that good. Prosperous Asian countries such as South Korea and Taiwan would not want to diminish their small influence in LDC circles by joining in a US-sponsored appeal to OPEC.

* * * * *

25X1

10 November 1977

SECRET

5

SECRET

ITALY: BALANCE OF PAYMENTS LOOKING GOOD

The Italian balance of payments has made a sharp turnaround from last year's deficit, thanks to domestic austerity, record tourist receipts, and bank borrowing abroad. Foreign currency reserves, at a \$1.6 billion low last fall, rebounded to \$6.5 billion by the end of September. Rome has handled recent debt repayments with little difficulty and can count on a strong current account to help meet its sizable 1978 obligations. These successes in the foreign sector have come at a cost of greater unemployment and reduced growth.

Current Account in Surplus

The current account should show a \$1.8 billion surplus in 1977,* following a \$2.6 billion deficit last year. Improvement is evident in both the trade and invisibles accounts.

Italy: Current Account

	Million US \$				
	1974	1975	1976	1977 ¹	1978 ²
Exports (f.o.b.)	30,074	34,553	36,688	44,100	48,300
Imports (f.o.b.)	38,568	35,719	40,726	43,700	46,750
Trade balance	-8,494	-1,166	-4,038	400	1,550
Services, net	510	338	872	900	900
Transfers, net ³	572	589	527	550	550
Current account balance ³	-7,412	-239	-2,639	1,850	3,000

¹ Estimate. ² Forecast. ³ Excludes government transfers.

By June, surging exports had pulled the trade account into the black, as austerity held down imports. In constant prices, exports rose at a 10.2-percent annual clip in the first half, compared with a 2.8-percent rise in imports. The January-August trade surplus of \$166 million (f.o.b./f.o.b., seasonally adjusted) contrasts with a \$2.3 billion deficit in the same period last year. For all of 1977, Italian trade should be \$400 million in surplus. Reduced energy consumption has largely offset the latest OPEC price hike, leaving only a marginal worsening in the oil trade deficit. Meanwhile, the non-oil trade balance, which had registered a \$1.0 billion surplus in January-August 1976, zoomed to a \$3.5 billion surplus in the first eight months of this year.

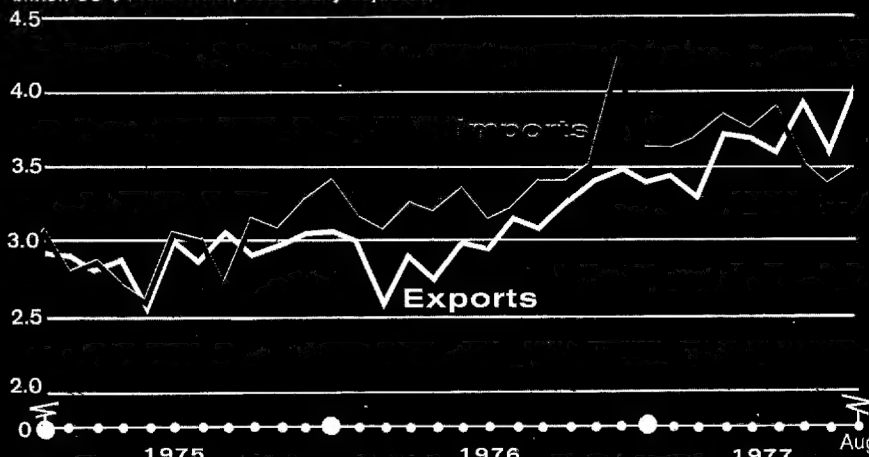
25X1

SECRET

Italy

Foreign Trade

billion US \$ (f.o.b./f.o.b.; seasonally adjusted)



574452 11-77

Italy has traditionally relied on good performance in the service and transfer accounts to offset chronic trade deficits. Last year, however, a \$1.4 billion surplus on invisibles only partly offset the wide trade gap. With trade in surplus this year, the \$1.4 billion surplus expected for invisibles will be pure gravy. The large surpluses on invisibles are being achieved despite annual net interest payments of roughly \$400 million on medium- and long-term debt.

Within the invisibles account, tourism is yielding the biggest gains. Foreign tourists are expected to spend \$3.6 billion in Italy this year, up from \$3.0 billion in 1976. One-fourth of all tourist revenue spent in the European Community is garnered by Italy. Italian tourists, on the other hand, are legally constrained in the amounts they can spend abroad. The surplus on private transfers is also picking up as industrial recovery in northern Europe increases the flow of worker remittances.

In 1978, austerity should continue to restrain internal demand, permitting exports to continue outpacing imports. The current account surplus of \$3.0 billion now expected for next year would be a postwar high.

Foreign Debt in Hand

One recent feature of the payments situation has been a sharp increase in the net foreign indebtedness of Italian commercial banks. After averaging about \$1

10 November 1977

SECRET

7

SECRET

billion in 1973-75, this credit channel developed over the last year into a major source of finance. Net bank borrowing was especially brisk in early 1977; net foreign indebtedness of banks increased from \$3.0 billion last December to \$7.5 billion by July of this year. Since July, it has declined, lessening the possibility of a credit squeeze by foreign banks. Nevertheless, the overhang of bank debt remains formidable.

The Bank of Italy encouraged commercial bank borrowing abroad as a means of obtaining foreign exchange while the current account was in deficit. It required that advance import payments and export credits be financed in foreign currency and placed foreign currency loans outside the ceiling on domestic credit expansion. As the current account improved, the central bank phased out foreign financing regulations.

Besides the jump in short-term bank indebtedness, Rome must cope with a legacy of medium- and long-term debt contracted largely in 1974-76. At yearend 1976, Italy's medium- and long-term hard currency debt totaled \$18.4 billion. Rome nevertheless had no difficulty repaying an \$835 million stand-by credit from the IMF this year and returning \$500 million on a \$2 billion "gold-backed" credit from the West German central bank. Moreover, Italy has repaid all private borrowings on schedule.

Italy: Net Foreign Financial Position

	Million US \$		
	Yearend 1975	Yearend 1976	End Sep 1977 ¹
Net medium and long term	-6,592	-4,774	-4,708
Accounts receivable	14,094	13,637	12,032
Export credits	7,218	6,174	4,976
Loans	6,876	7,463	7,056
Accounts payable	20,686	18,412	16,740
Suppliers' credits	1,713	1,207	842
Loans	12,711	10,209	9,651
Public	1,585	1,870	1,801
Private	11,126	8,339	7,850
Bank of Italy/Foreign Exchange Office	6,262	6,995	6,247
OEC	1,885	2,407	2,907
IMF	2,877	2,853	1,840
Bundesbank	1,500	1,736	1,500
Net short term	-772	-3,119	-6,545
Bank of Italy/Foreign Exchange Office	-40	-108	NA
Commercial banks	-732	-3,011	-6,545
Net total position	-7,364	-7,893	-11,253

¹ Estimate; data do not include \$400 million in Euromarket loans contracted in 1977 by state agencies but not drawn.

SECRET

On the whole, the outlook for management of the foreign currency debt is good. Net long- and medium-term foreign currency indebtedness amounts to only \$4.8 billion. Rome is a sizable international creditor as well as debtor, having lent large sums to finance exports to the USSR and Eastern Europe. The receipt of loan repayments even resulted in a small net repayment surplus in 1976 and 1977. Substantial foreign currency reserves—\$6.5 million worth at the end of September—and the expanding current account surplus are other elements of financial strength. In addition, Rome holds \$3.4 billion in gold, valued at the official price.

Debt service will prove troublesome in 1978, when \$3.3 billion net principal repayments (\$5.1 billion gross) fall due. Obligations to repay \$1.2 billion to the EC and the \$1.5 billion still outstanding on the West German loan make up most of this total. Existing reserves and the current account surplus should provide adequate financing. In a pinch, part of the West German loan probably could be rolled over, although Bonn has expressed reservations about stretching out bilateral credits. Moreover, Rome can look forward to drawing the remaining \$414 million on its April IMF credit provided that Italy meets IMF conditions. After 1978, debt service will ease considerably.

Financial stability recently has allowed Italy to exhibit more flexibility in its exchange rate policy. Rome has intervened to keep the lira from rising against the dollar, thereby permitting the lira to depreciate against the strong continental currencies. In so doing, Rome is collecting dollars that will assist in the repayment of foreign debt.

The Italian Strategy

For most of the period since the oil crisis, Italy has been a heavy borrower. At first, large Euromarket loans were contracted by public agencies until worries over creditworthiness effectively closed this borrowing channel. Late 1974 saw a switch of emphasis to official medium-term borrowing. The latest credit source to be tapped was short-term bank borrowing. This heavy borrowing provided international liquidity while productive resources were being shunted to the export sector to help pay the enormously increased oil bills.

Rome's balance-of-payments strategy, however, has not been compatible with economic growth and low unemployment. While austerity is forcing the current account into the black, it also dictates near economic stagnation this year and next. Unemployment, already high will increase further. A reconciliation between economic growth and balance-of-payments stability will require major structural reforms, primarily in the area of labor costs and public finance, reforms that Rome thus far has been unable to effect.

* * * * *

10 November 1977

SECRET

9

25X1

SECRET

POLAND: POSSIBLE RESCHEDULING OF HARD CURRENCY DEBT

A rapid increase in imports of Western capital goods and grain, combined with sluggish export growth, had pushed Poland's hard currency debt to more than \$10 billion at yearend 1976. By the end of 1977, the debt will have risen another \$3 billion, and the debt service ratio will have climbed to 60 percent.

Even though Poland has been able to obtain the funds needed to cover its trade deficits and its growing debt service obligations, both Warsaw and Western creditors are becoming increasingly concerned over the mushrooming debt. The Polish Government may find this deficit-credit-debt process grinding to a halt as early as next year. It may be unable to obtain the necessary loans to take care of its financing needs and may thus be forced into a major rescheduling of its debt with Western commercial banks and/or governments.

The Growing Trade Deficits

After taking power in late 1970, party boss Edward Gierek instituted a program to push economic development and raise workers' living standards. To support this program, Poland has imported a large volume of Western industrial equipment and materials on credit. In response to consumer anger over chronic meat shortages, Warsaw also has purchased substantial quantities of foreign feed grains and, more recently, meat. Soaring world prices, particularly in late 1973 and 1974, added greatly to Poland's import bill.

Polish exports to the developed West have not kept pace with imports, growing an average of 23 percent a year (in current dollars) since 1970 compared with almost 40 percent for imports. The poorer export performance is largely attributable to Western recession in 1974-75 and halting recovery in 1976-77. Meat exports, once the primary source of hard currency earnings, have been trimmed to help satisfy domestic demand.

By 1976, the trade deficit had reached \$3.3 billion, with the hard currency debt rising from \$1.9 billion at yearend 1973 to \$10.2 billion at yearend 1976. Debt service obligations (principal plus interest) have grown rapidly, equaling 50 percent of merchandise exports to the developed West in 1976 and a projected 60 percent in 1977.

Increased Difficulty of Financing

Credits sponsored by Western governments have played a key role in facilitating Poland's imports of machinery and equipment. By yearend 1976, the amount

SECRET

Poland: Estimated Hard Currency Balance of Payments

	1974	1975	1976	1977 ¹
	Million US \$			
Exports, f.o.b.	2,865	3,026	3,330	3,750
Imports, f.o.b.	5,233	6,076	6,660	6,450
Services and transfers, net	300	325	550	570
Interest, net	-240	-450	-680	-870
Current account balance	-2,308	-3,175	-3,460	-3,000
Financed by:				
Medium- and long-term credits, net	1,100	1,750	2,300	2,000
Short-term capital and errors and omissions	1,208	1,425	1,160	1,000
Outstanding net debt	3,950	6,873	10,200	13,000
	Percent			
Debt service ratio ²	31	43	50	60

¹ Projected.² Scheduled repayments of principal on medium- and long-term debt plus interest payments on total debt as a percent of merchandise exports to the developed West.

outstanding on government and government-backed credits represented about one-third of total Polish indebtedness. Austria, France, the United Kingdom, West Germany, and the United States have been the largest sources. Outstanding debt on US Government and government-backed credits totaled \$501 million at yearend 1976, of which \$121 million was on Eximbank credits, \$166 million of CCC credits, and \$214 million on PL 480 credits.

Borrowing from private Western commercial banks has soared because of Warsaw's need to take care of immediate financial requirements arising from large trade deficits and growing debt service payments. By yearend 1976, more than one-half of Poland's debt was owed to these banks. Other sources of financing have included deposits by oil-rich Middle East countries and loans from CEMA banks.

25X1

10 November 1977

SECRET

11

SECRET

Shaky Situation in 1977

Warsaw's efforts to control its hard currency trade deficit continue to be thwarted by sluggish Western economic recovery and soft world prices for Polish exports. The government has had more success in holding down imports, in part through import substitution, especially for industrial raw materials. Last November, Gierk obtained a commitment of more Soviet oil through 1980, thus holding down hard currency requirements; this gain was reinforced by a Soviet credit, which probably has allowed Warsaw to shift some of its other raw material purchases to the USSR.

If the trends of the first half continue through the remainder of 1977, Poland will be able to cut its trade deficit with the developed West by at least \$500 million. Nevertheless, the financing required to cover the deficit and meet debt service obligations will be close to \$5 billion this year. Warsaw has had available for use in 1977 about \$2 billion in Western government and government-backed credits and \$1.2 billion in unused Western bank credits. The remainder of its financing will come principally through new commercial bank borrowing. Other possible sources are short-term funds from Middle Eastern countries and perhaps some money from CEMA banks.

Outlook: No Easy Solutions

Poland faces unpleasant options over the next few years in trying to manage its hard currency debt. Warsaw must continue to curb imports, yet economic growth plans and consumer needs require large imports of Western machinery, industrial materials, and agricultural and food products. Warsaw already has announced its intentions to curb imports of Western machinery in 1978-80. These imports can be curtailed for a time without much effect on economic growth; a large backlog of equipment awaits installation, and some plant already in place is underutilized. If recovery in the West remains sluggish, Warsaw would have to make further cuts, especially in industrial raw material imports, and would be forced to lower its economic growth targets. Continuing poor harvests—Poland has had four in a row—would make a reduction in growth plans even more severe.

Poland's hard currency imports are nearly double exports. Thus, even under favorable circumstances—a strong recovery in exports, good harvests, and zero import growth—Poland will not be able to achieve the 1980 goal of balancing its trade with the West. Gross financing requirements almost certainly will continue to total \$4 billion to \$5 billion a year as mounting debt repayment obligations offset the expected decline in trade deficits. At least half of the financing will have to be raised in private Western money markets since only about \$2 billion a year is expected to be drawn on Western government and government-backed credits.

SECRET

Prospects for Debt Relief

[REDACTED]

25X1

[REDACTED] The Gierek government has asked the United States for a \$500 million to \$600 million credit to finance agricultural purchases in FY 1978 and is seeking \$400 million to \$500 million a year thereafter for similar purchases. The Poles want a seven-year repayment period on the credits, including a three-year grace period. Such terms are highly unusual; credits for financing agricultural purchases rarely exceed three years.

[REDACTED]

25X1

[REDACTED] As a last
[REDACTED] the Poles might try to reschedule Western government and government-backed credits. Warsaw probably would first approach Austria, France, or the United Kingdom because of the large amount of government-backed debt outstanding and the excellent political relations with these countries. Warsaw probably will be more reluctant to approach the West Germans because of Bonn's past extensions of large financial assistance. Domestic opposition to further handouts is growing within West Germany. Poland might also hesitate to turn to the United States for rescheduling, especially if it receives US concessionary credits for its agricultural purchases. Some further relief from Moscow is possible, although unlikely, given Soviet payments problems.

Whatever approach or combination of approaches Warsaw might take to ease its financial burdens, major debt rescheduling could take place as early as 1978. [REDACTED]

25X1

[REDACTED]

10 November 1977

SECRET

13

SECRET

CARIBBEAN ECONOMIES: GLOOMY SITUATION TO CONTINUE

Balance-of-payments problems in the Caribbean economies* have contributed to three years of anemic economic growth, mounting unemployment, and increased trade restrictions. This set of difficulties has undercut efforts to establish a viable common market in the region. Economic conditions there will remain depressed because of limited prospects for higher world sugar prices, heavy competition from Western Europe for the US tourist dollar, and the continuing diversion of new investments away from the area.

The United States can expect: (a) tightened investment restrictions, which will limit the profitability of the \$4 billion to \$5 billion US investment stake in the area; (b) continued slow growth of US exports to the region, now the third largest US market in Latin America; (c) increased demands for US economic assistance; (d) growing political difficulties and occasional civil unrest, which may provide Cuba with increased opportunities to expand its influence; and (e) increased pressure for emigration from the region, with most of the impact on the United States.

Payments Problems in 1975-76

The region's economic situation began deteriorating in 1975 when a fall in tourism and commodity export earnings combined with rising import prices created serious payments problems. The payments squeeze worsened last year as a result of the continued sharp drop in the world price of sugar, which accounts for about 15 percent of regional exports. Prices on the world market, where 15 percent of the region's sugar is sold, averaged about 11.6 cents per pound in 1976, compared with 20.5 cents in 1975 and 30.0 cents in 1974. Tourism in 1976 failed to register the buoyant revival normally expected with US economic recovery because of increased competition with Western Europe, high prices and deteriorating service, and violence in Jamaica, which hurt the reputations of other resort areas as well.

Declining foreign investor confidence aggravated the payments problem by reducing the inflows of private foreign capital. Nationalistic policies proved particularly damaging in Jamaica, Guyana, and the Bahamas, which experienced reductions in net foreign private investment. Lacking sound credit ratings needed to raise long-term foreign funds, Jamaica and Guyana resorted to patchworks of short-term commercial credits, small-scale economic assistance, and drawdowns of foreign reserves. At the same time, import restrictions had to be strengthened to keep trade deficits within manageable limits.

Economic austerity measures aimed at reducing imports, along with the falloff in foreign investment, cut sharply into real growth. Average real growth dropped

*Bahamas, Barbados, Dominican Republic, Guyana, Jamaica, Surinam, and Trinidad and Tobago. Cuba, Haiti, and a number of smaller islands are not included.

SECRET

from 3.7 percent in 1973-74 to 1.6 percent in 1975-76. Guyana and Jamaica were hardest hit with real GDP declining 13 percent and 7 percent, respectively, last year. Except for the Dominican Republic and Trinidad and Tobago, economic expansion has lagged far behind growth in the labor force. As a consequence, unemployment in the region as a whole reached 22 percent by the end of 1976. Despite the rise in unemployment, inflation continued to range between 7 and 15 percent in the various economies because of supply shortages resulting primarily from import curbs.

Caribbean Economies: Unemployment and Changes in Real GDP

	Unem- ployment 1976	Changes in Real GDP					Percent
		1973	1974	1975	1976	1977 ¹	
Bahamas	21	8.5	6.9	-14.4	4.8	2.6	
Barbados	20	2.1	-1.6	-1.7	6.2	2.0	
Dominican Republic	20	12.1	8.9	5.1	5.5	4.0	
Guyana	20	0.3	7.0	5.0	-13.0	-5.0	
Jamaica	30	-2.6	-2.1	-1.0	-6.9	-4.0	
Surinam	15	6.0	-8.8	2.9	0	2.0	
Trinidad and Tobago	15	-0.5	0	7.1	4.8	5.0	
Weighted average	22	4.4	3.0	1.8	1.5	1.9	

¹ Projected.

Little Improvement in 1977

The general economic situation of these countries remains poor this year. The one bright spot has been the recovery of the world aluminum market, which has bolstered Caribbean bauxite/alumina sales. World sugar prices are still depressed, averaging 7 to 8 cents a pound during the first 10 months of 1977. As for tourism, the moderate revival that began last year appears to have reached a plateau by mid-1977. In these circumstances we expect total earnings from goods and services in current dollars to increase only about 5 percent this year.

For several of the countries, balance-of-payments strains have remained severe or have even intensified since the start of 1977. In the case of Jamaica and Guyana, sources of foreign assistance and short-term commercial credits are now generally depleted, and foreign investment inflows have almost disappeared. With foreign reserves dangerously low, both countries have had to tighten import restrictions further. Most other Caribbean countries are continuing to keep close controls on their imports.

Continued import restrictions are blocking a revival of economic growth, adding to unemployment, and exerting inflationary pressure in most of the eco-

10 November 1977

SECRET

15

SECRET

nomies. We expect average real GDP this year to increase by only 1.9 percent, compared with last year's gain of 1.5 percent. The best performer will be Trinidad and Tobago, reflecting its position as an oil refiner and exporter. Growth is slowing in Barbados and the Bahamas as the revival in tourism loses strength. Weak sugar prices are hurting the Dominican Republic. For first half 1977, inflation has been running at a 14-percent annual rate in the region as a whole.

Caribbean Economies: Exports, Imports, and International Reserves

	Million US \$			
	1974	1975	1976	1977 ¹
Bahamas				
Exports, f.o.b. ²	502	503	550	580
Imports, (non-oil) c.i.f.	314	231	276	315
International reserves	50	53	47	60
Barbados				
Exports of goods and services, f.o.b.	179	211	208	230
Imports, c.i.f.	210	219	237	266
International reserves	39	40	28	25
Dominican Republic				
Exports of goods and services, f.o.b.	735	1,008	830	895
Imports, c.i.f.	774	889	878	951
International reserves	91	116	127	140
Guyana				
Exports ³	268	369	257	275
Imports, c.i.f.	222	316	362	308
International reserves	63	100	27	15
Jamaica				
Exports of goods and services, f.o.b.	1,055	1,122	946	1,050
Imports, c.i.f.	936	1,124	913	875
International reserves	190	126	32	27
Surinam				
Exports of goods and services, f.o.b.	269	277	305 ⁴	290
Imports, c.i.f.	230	262	275 ⁴	285
International reserves	74	97	116	100
Trinidad and Tobago				
Exports of goods and services, f.o.b.	2,488	2,218	2,666	2,700
Imports, c.i.f.	1,865	1,471	1,966	2,000
International reserves	390	751	1,014	1,150

¹ Projected.

² Exports of goods (excluding oil products) and tourist receipts.

³ Merchandise exports.

⁴ Estimated.

Jamaica and Guyana remain the hardest hit by the recent difficulties. Although official foreign assistance since the IMF standby credit in July should allow Jamaica to meet essential foreign obligations this year, Kingston has had to cut imports 4 percent from last year's depressed level. Real GDP will likely drop for the fifth

SECRET

consecutive year, to 84 percent of the 1972 level, and unemployment and inflation have worsened. Guyana, unable to obtain substantial foreign assistance, faces at least a 15-percent import cut this year to bring external obligations to a manageable level. Real GDP will likely drop at least 5 percent—to 83 percent of the 1975 level—and unemployment will climb beyond 20 percent of the labor force.

Effects on Integration Efforts

The mounting economic difficulties have undercut efforts to strengthen the fledgling Caribbean Common Market (CARICOM).^{*} Import restrictions by some members have hurt the export sectors of their regional trading partners and have increased the intraregional trade deficits of the smaller members. Trinidad and Tobago and Barbados have been particularly hard hit by the trade restrictions of Jamaica and Guyana. Trade restrictions have intensified nationalistic prejudices and leadership rivalries in the region. The smaller members, already critical of CARICOM because of disproportional benefits accruing to the larger members, are becoming increasingly reluctant to cooperate in further integration efforts. Partly because of this uncooperative spirit, the highly respected Secretary-General of CARICOM, Alister McIntyre, recently resigned.

Current problems underscore basic economic and political factors that argue against the success of regional integration. The economies are extremely competitive, leaving little opportunity for mutual trade except in light manufactures, which can often be purchased more cheaply outside the region. The share of intraregional imports, which grew from only 5 percent of the imports of the present CARICOM members in 1967 to 8 percent in 1975, may well have declined in 1976 and 1977.

Structural Weaknesses

The recent setbacks expose the area's basic structural weaknesses imposed by limited resources and small domestic markets. Most of the economies are heavily dependent on imports and rely on one or two prominent export industries—such as sugar, bauxite, or tourism—that are typically operated as foreign-owned enclaves with little linkage to the domestic economies. Moreover, widespread distaste for farm labor has prevented most countries from fully exploiting their agricultural resources. As a result, sugar production, except in the Dominican Republic, has declined steadily since the mid-1960s. A large and growing share of food requirements must be imported despite the existence of unused arable land. Two major exceptions to these developments are the Dominican Republic, which has a diversified economy based on minerals, agriculture, and light manufacturing, and Trinidad and Tobago, which has the region's only known oil and gas deposits. In spite of

^{*}CARICOM includes Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Monserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, and Trinidad and Tobago.

SECRET

recently tightened foreign investment codes, the resource bases and political stability of these two countries give them the area's most attractive investment climate.

Prospects

With the major exceptions of the Dominican Republic and Trinidad and Tobago, prospects for a substantial recovery of the larger Caribbean economies are dim over the next several years. Although bauxite/alumina producers will continue to benefit from rising sales, assuming the continued recovery of the world aluminum industry, capacity constraints will soon put a lid on expansion of output. Even with a new international sugar agreement, sugar prices are unlikely to rise much above production costs of 10 to 12 cents per pound. The outlook for tourism will remain clouded by the region's deteriorating and costly tourist services, its reputation for violence, and competition from Western Europe. As a result, over the next couple of years, most of the countries will be hard pressed to pay for needed imports, economic growth will remain sluggish, and unemployment will continue to rise.

The bleak export market outlook combined with nationalistic economic policies in most of the countries will discourage private investment in the immediate future. A case in point is the shift of bauxite/alumina investments from the Caribbean to Brazil, Guinea, and Australia. Moreover, potential foreign investors in import substitution industries will continue to be deterred by weak internal demand.

In these circumstances, the economic and social problems of the area will worsen. Unemployment, particularly among youth, will increase, thereby exerting additional pressure on governments to raise funds for welfare and public investment; this could engender higher taxes on, and greater equity participation in, foreign-owned business—moves detrimental to future growth.

Progress toward a fully operative Caribbean common market over the next several years remains unlikely. Continuing import restrictions will further intensify regional economic and political rivalries, and will lessen the already limited opportunities for intraregional trade. These rivalries will be magnified by a further Balkanization of the region as more of the small islands opt for independence over the next few years.

* * * * *

Note

Coffee Producers Uniting on Price Policy

Coffee producing nations are scheduled to meet in London on 14 November to discuss joint policies for defending coffee prices. This meeting follows a series of

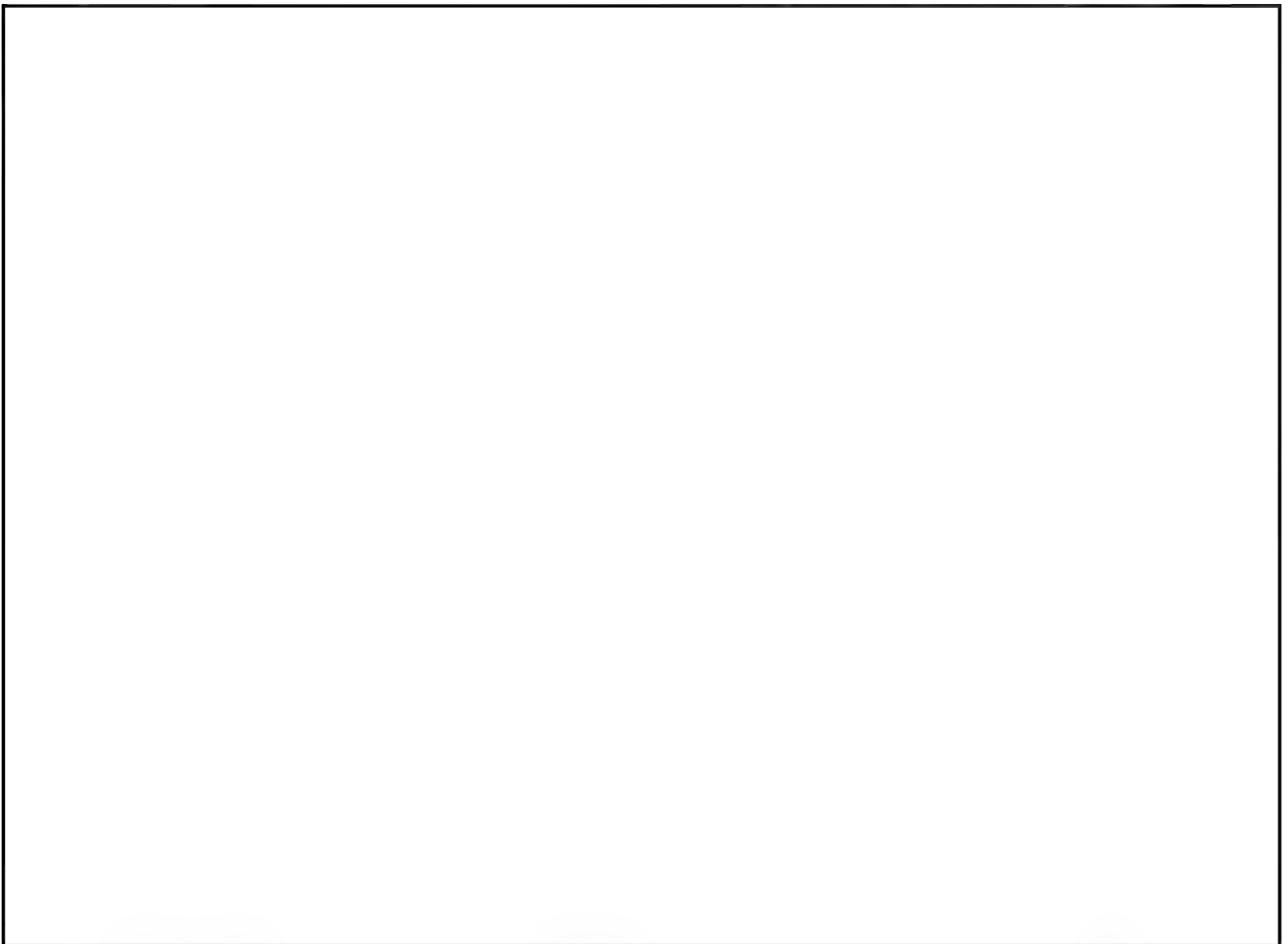
SECRET

agreements by regional coffee producer groups to coordinate marketing efforts. News of the producer agreements has pushed the December future price up more than 40 cents per pound in the last two weeks, to \$1.95.

Central American producers agreed in late October to withhold coffee from the market to bolster prices. Last Friday Brazil and Colombia, the world's largest coffee producers, followed by agreeing to coordinate marketing procedures. Early this week African producers announced their support of the other producers, also agreeing to halt sales until prices improve.

Unity among coffee producers will probably be effective for only a short time because most of these countries need foreign exchange. As prices firm, the temptation to sell coffee will mount. For the longer term, prices will likely trend downward, reflecting the ample supply of coffee available to meet reduced world demand.

25X1



10 November 1977

SECRET

19

Secret

Approved For Release 2002/08/12 : CIA-RDP79B00457A000300030001-7

Secret

Approved For Release 2002/08/12 : CIA-RDP79B00457A000300030001-7



**National
Foreign
Assessment
Center**

Approved For Release 2002/08/12 : CIA-RDP79B00457A000300030001-7

Economic Indicators Weekly Review

10 November 1977

ER EI 77-045

Approved For Release 2002/08/12 : CIA-RDP79B00457A000300030001-7

This publication is prepared for the use of U.S. Government officials. The format, coverage and contents of the publication are designed to meet the specific requirements of those users. U.S. Government officials may obtain additional copies of this document directly or through liaison channels from the Central Intelligence Agency.

Non-U.S. Government users may obtain this along with similar CIA publications on a subscription basis by addressing inquiries to:

Document Expediting (DOCEX) Project
Exchange and Gifts Division
Library of Congress
Washington, D.C. 20540

Non-U.S. Government users not interested in the DOCEX Project subscription service may purchase reproductions of specific publications on an individual basis from:

Photoduplication Service
Library of Congress
Washington, D.C. 20540

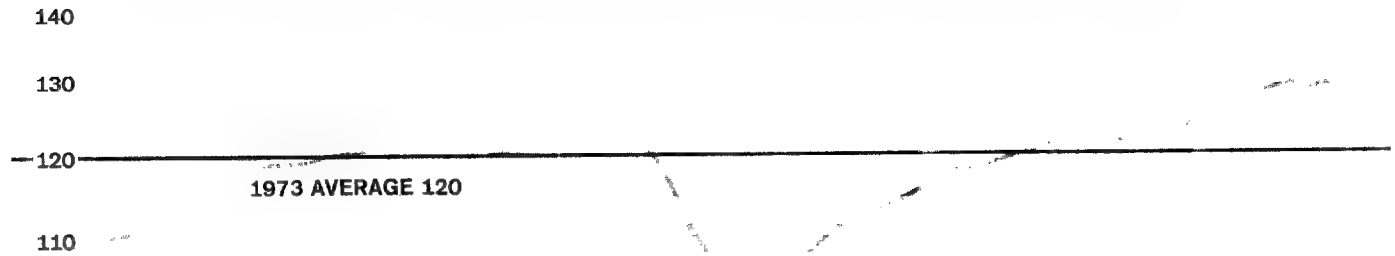
FOREWORD

1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

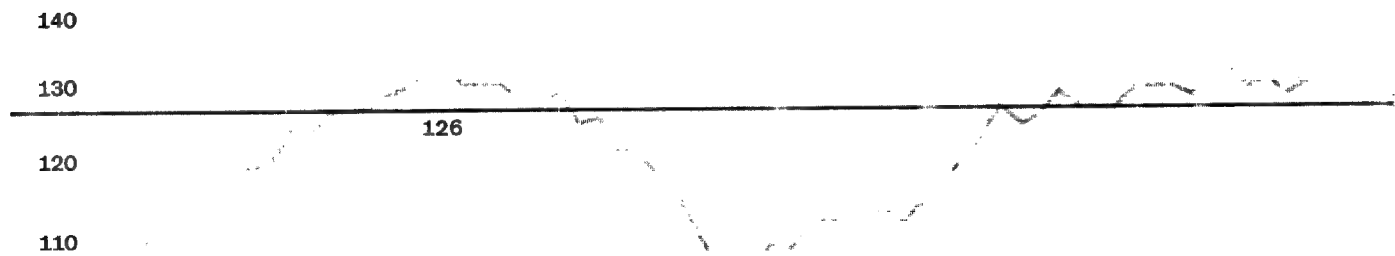
2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 20 October 1977. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

United States

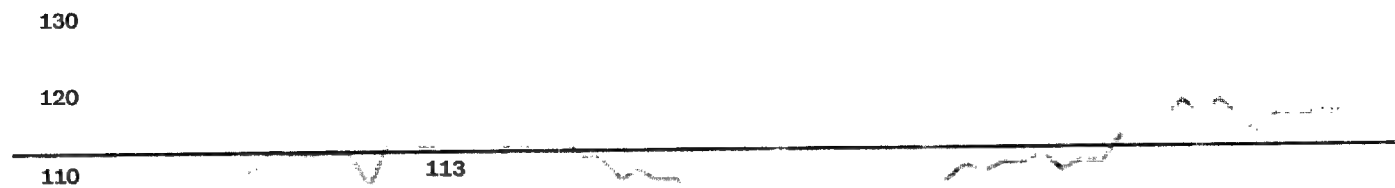
Semilogarithmic Scale



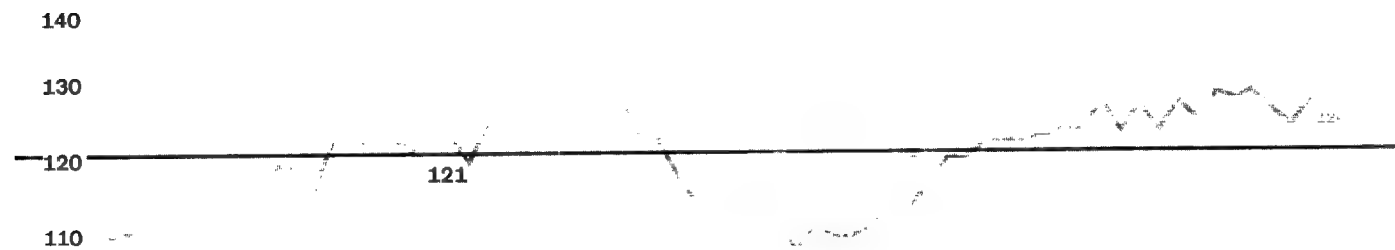
Japan



West Germany



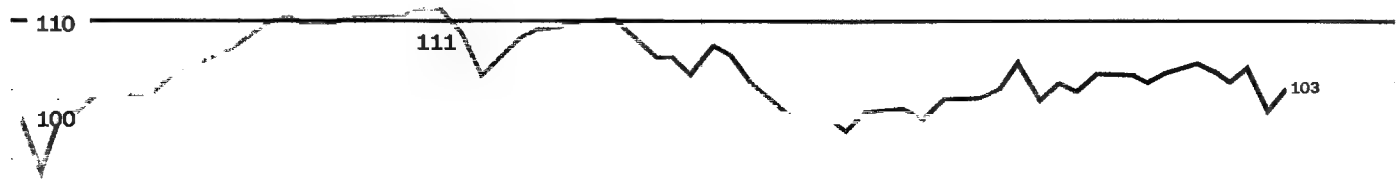
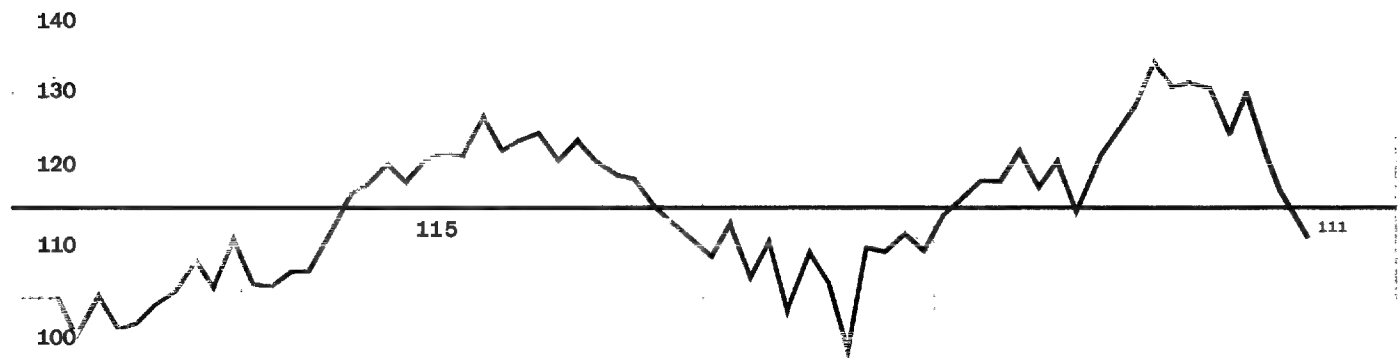
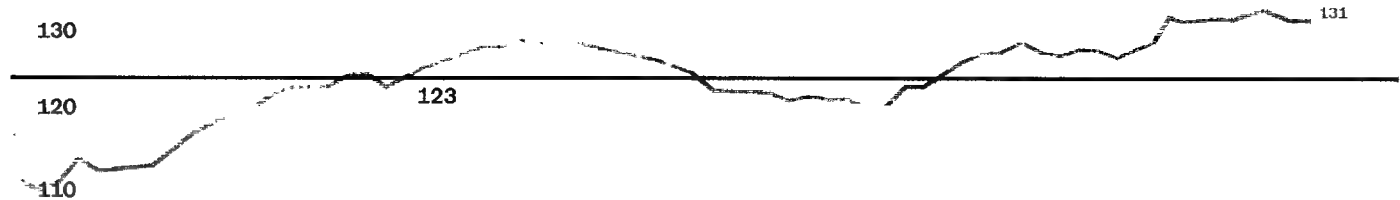
France



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
1972 1973 1974 1975 1976 1977

United Kingdom

Semilogarithmic Scale

**Italy****Canada**

JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT

1972 1973 1974 1975 1976 1977

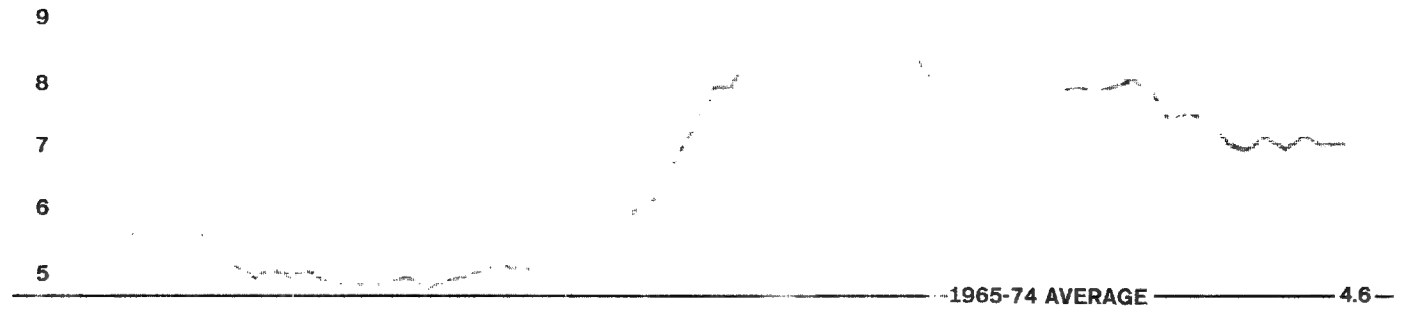
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE				LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE		
			1970	1 Year Earlier	3 Months Earlier ¹				1970	1 Year Earlier	3 Months Earlier ¹
United States	SEP 77	0.4	3.6	6.1	4.9	United Kingdom	JUL 77	2.8	0.4	-1.0	-8.5
Japan	AUG 77	1.2	3.8	2.9	-2.6	Italy	AUG 77	-3.6	1.5	-2.0	-33.5
West Germany	AUG 77	0	2.1	2.7	0	Canada	AUG 77	0	3.9	2.7	0.3
France	AUG 77	0	3.1	0	-3.1						

¹Average for latest 3 months compared with average for previous 3 months.

5/4440 11-77

UNEMPLOYMENT PERCENT OF LABOR FORCE

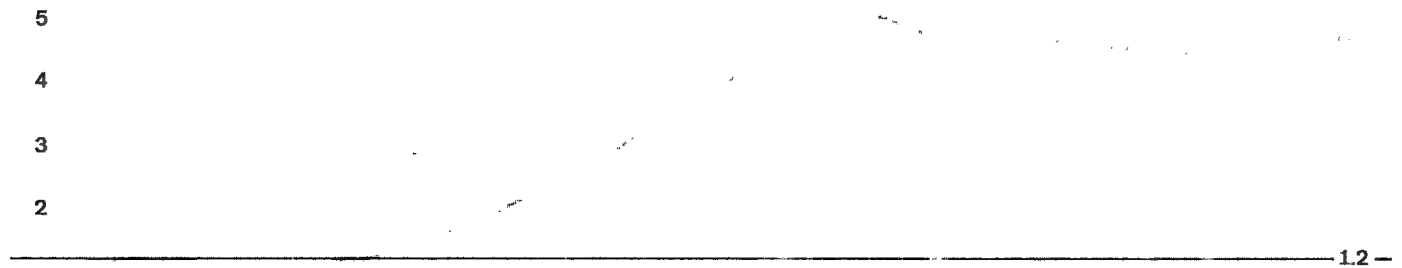
United States



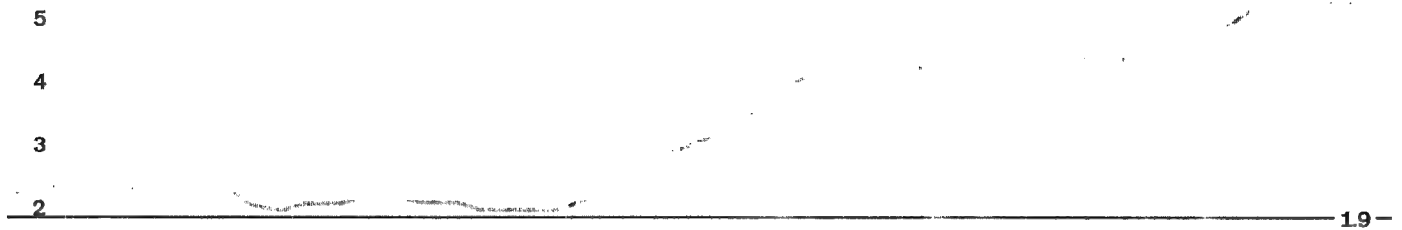
Japan



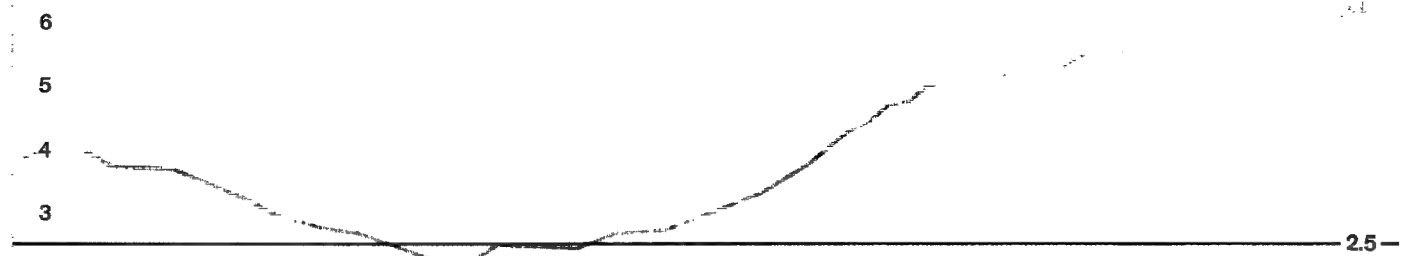
West Germany



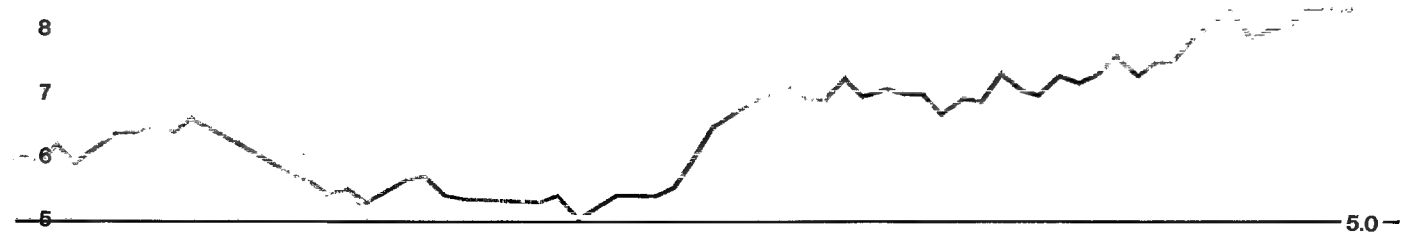
France



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
 1972 1973 1974 1975 1976 1977

United Kingdom**Italy (quarterly)**

A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable. Italian data are not seasonally adjusted.

Canada

JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
1972 1973 1974 1975 1976 1977

THOUSANDS OF PERSONS UNEMPLOYED

		LATEST MONTH	1 Year Earlier	3 Months Earlier			LATEST MONTH	1 Year Earlier	3 Months Earlier
United States	OCT 77	6,872	7,564	6,744	United Kingdom	OCT 77	1,433	1,308	1,394
Japan	JUN 77	1,190	1,120	1,050	Italy	77 III	1,692	776	1,432
West Germany	SEP 77	1,046	1,034	1,045	Canada	SEP 77	798	753	847
France	SEP 77	1,159	941	1,150					

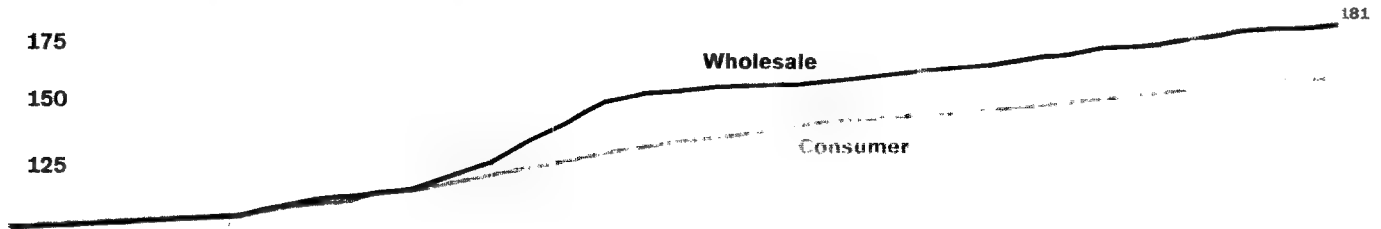
NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan, Italy and Canada are roughly comparable to US rates. For 1975-77, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates.

3/4/441 11 77

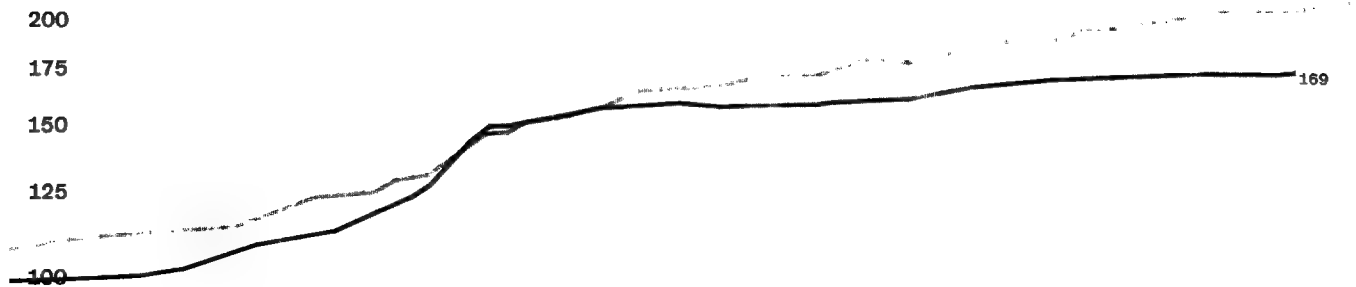
DOMESTIC PRICES¹ INDEX: 1970=100

United States

Semilogarithmic Scale



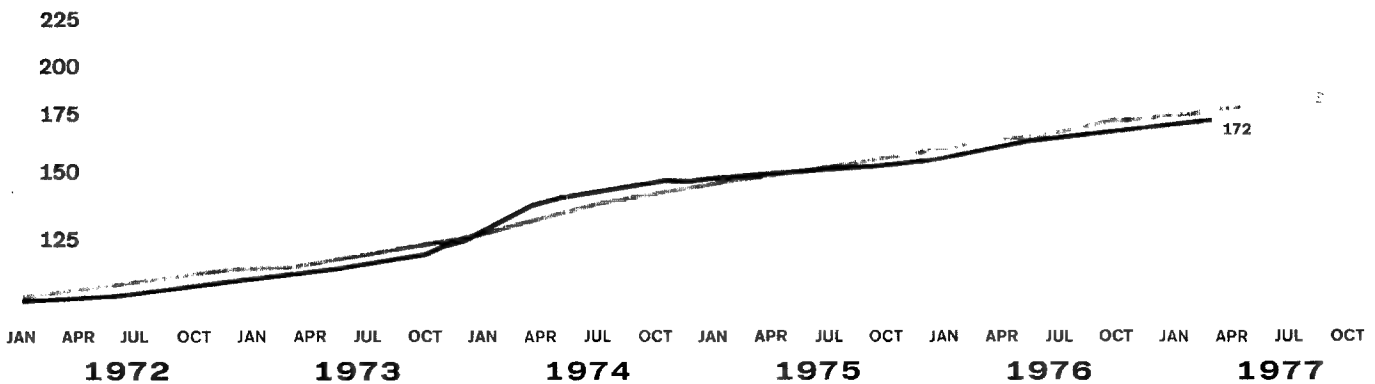
Japan



West Germany



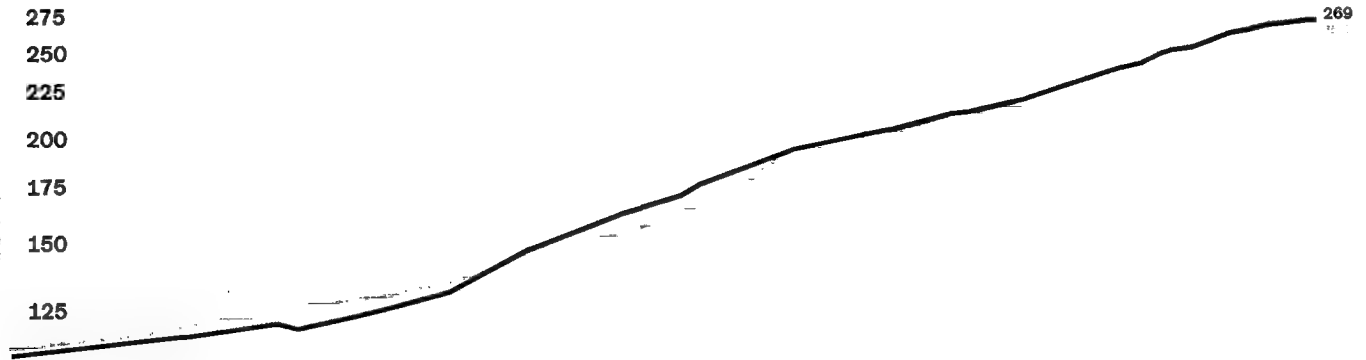
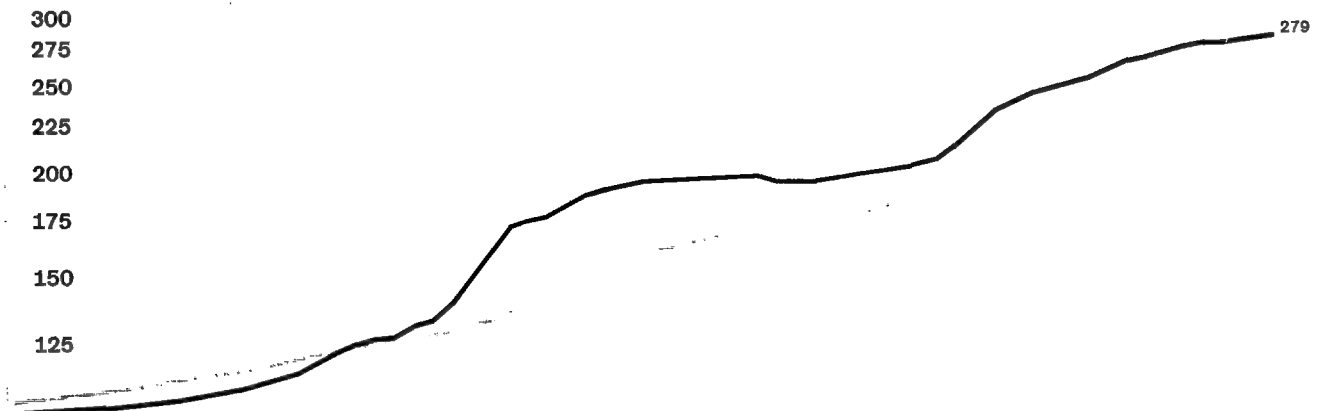
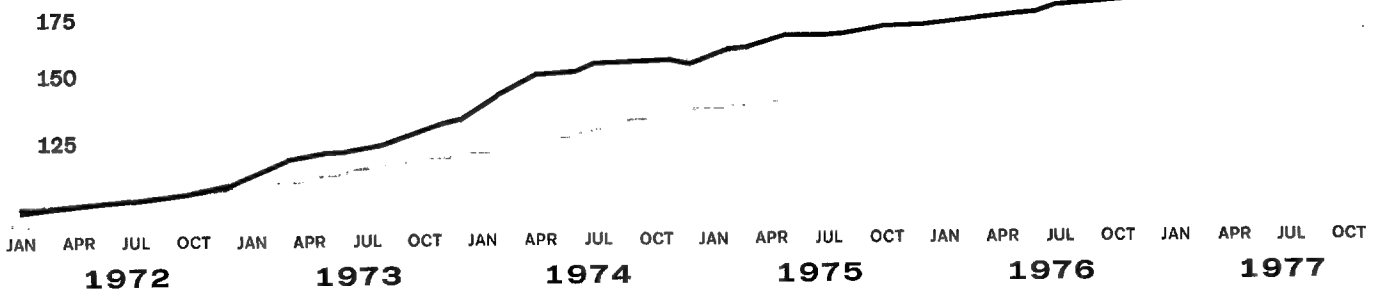
France



¹Wholesale price indexes cover industrial goods.

United Kingdom

Semilogarithmic Scale

**Italy****Canada**

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE				LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE		
			1970	1 Year Earlier	3 Months Earlier				1970	1 Year Earlier	3 Months Earlier
United States	OCT 77	0.7	8.5	6.9	6.9	United Kingdom	SEP 77	0.4	14.7	19.0	10.8
	AUG 77	0.4	6.6	6.6	6.1		SEP 77	0.5	13.8	15.6	4.4
Japan	AUG 77	0.2	7.6	0.8	-2.3	Italy	JUL 77	0.3	15.7	14.7	5.0
	SEP 77	1.8	10.5	7.6	6.2		SEP 77	1.1	13.2	19.2	10.6
West Germany	AUG 77	-0.1	5.2	1.9	-0.3	Canada	AUG 77	0.4	10.1	9.8	7.9
	SEP 77	-0.1	5.5	3.7	-1.4		SEP 77	0.6	7.5	6.4	8.0
France	MAR 77	0.9	8.4	8.2	7.6						
	AUG 77	0.5	9.0	9.9	9.1						

574442 11-77

GNP ¹**Constant Market Prices**

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	Previous Quarter
United States	77 III	0.9	3.2	4.6	3.8
Japan	77 II	1.9	5.6	5.6	7.6
West Germany	77 II	-0.2	6.3	2.4	-1.0
France	76 IV	0	3.9	4.9	0
United Kingdom	77 I	-1.9	1.6	-1.3	-7.5
Italy	76 IV	1.1	3.0	5.5	4.6
Canada	77 II	-0.6	4.9	0.5	-2.4

¹ Seasonally adjusted.**RETAIL SALES ¹****Constant Prices**

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier ²
United States	Sep 77	-1.4	2.9	4.2	-0.6
Japan	Jun 77	-0.1	9.8	2.6	1.4
West Germany	Aug 77	3.4	2.9	7.9	14.5
France	Jun 77	7.7	-0.3	1.0	-8.1
United Kingdom	Sep 77	-0.7	1.0	-2.2	12.2
Italy	Apr 77	-0.4	2.8	1.0	-3.1
Canada	Jul 77	3.0	4.4	0.6	-2.8

¹ Seasonally adjusted.² Average for latest 3 months compared with average for previous 3 months.**FIXED INVESTMENT ¹****Non-residential; constant prices**

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	Previous Quarter
United States	77 III	1.0	2.1	7.8	4.2
Japan	77 II	0.5	1.1	4.5	2.0
West Germany	77 II	-1.6	0.4	3.4	-6.4
France	75 IV	8.8	4.2	2.9	40.1
United Kingdom	77 I	-0.6	0	3.4	-2.5
Italy	76 IV	5.2	3.0	15.4	22.4
Canada	77 II	6.1	3.2	-1.1	26.7

¹ Seasonally adjusted.**WAGES IN MANUFACTURING ¹**

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier ²
United States	Sep 77	0.4	7.5	6.6	6.5
Japan	Jun 77	1.7	17.3	12.5	8.7
West Germany	77 II	1.7	9.5	7.5	7.2
France	77 I	2.3	14.1	13.9	9.5
United Kingdom	Aug 77	0	15.3	3.0	3.5
Italy	May 77	5.3	21.1	29.4	33.2
Canada	Jul 77	0.3	11.4	11.0	12.6

¹ Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.² Average for latest 3 months compared with that for previous 3 months.**MONEY MARKET RATES**

				Percent Rate of Interest		
Representative rates		Latest Date		1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Commerical paper	Nov 2	6.55	5.08	5.60	6.31
Japan	Call money	Nov 4	4.63	6.75	5.75	5.00
West Germany	Interbank loans (3 months)	Nov 2	4.06	4.60	4.03	4.17
France	Call money	Nov 4	8.75	11.44	8.50	8.38
United Kingdom	Sterling interbank loans (3 months)	Nov 2	4.84	15.36	7.20	5.65
Canada	Finance paper	Nov 2	7.38	9.28	7.38	7.10
Eurodollars	Three-month deposits	Nov 2	7.14	5.36	6.18	6.98

EXPORT PRICES

US \$

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
United States	Aug 77	-0.1	9.5	4.1	-4.4
Japan	Jul 77	-1.8	10.4	10.4	-4.4
West Germany	Aug 77	-1.1	11.4	9.1	7.9
France	Jul 77	1.5	11.3	8.2	10.2
United Kingdom	Aug 77	2.9	11.0	13.9	15.7
Italy	Jun 77	1.7	11.2	14.5	9.8
Canada	Jun 77	-1.7	9.3	-2.9	6.9

EXPORT PRICES

National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
United States	Aug 77	-0.1	9.5	4.1	-4.4
Japan	Jul 77	-1.0	6.3	3.1	-5.3
West Germany	Aug 77	-0.2	4.5	-0.1	0.6
France	Jul 77	-0.1	9.2	8.7	1.7
United Kingdom	Aug 77	1.9	16.1	16.7	10.1
Italy	Jun 77	1.6	16.9	19.4	18.5
Canada	Jun 77	-0.9	9.5	5.4	9.6

IMPORT PRICES

National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
United States	Aug 77	1.1	13.4	8.6	1.0
Japan	Jul 77	-1.5	10.5	-2.3	7.0
West Germany	Aug 77	0.6	4.4	-0.7	3.3
France	Jul 77	0.1	10.3	14.3	-0.3
United Kingdom	Aug 77	-1.0	19.3	13.9	1.7
Italy	Jun 77	3.3	21.3	15.1	22.4
Canada	Jun 77	0.5	8.6	8.5	7.4

OFFICIAL RESERVES

Billion US \$

	Latest Month	End of	Billion US \$	1 Year		3 Months	
				Jun 1970	Earlier	Jun 1970	Earlier
United States	Aug 77		19.1	14.5	18.6	19.2	
Japan	Sep 77		17.9	4.1	16.5	17.4	
West Germany	Aug 77		34.9	8.8	34.3	34.8	
France	Jul 77		9.9	4.4	9.4	10.0	
United Kingdom	Sep 77		17.2	2.8	5.2	11.6	
Italy	Aug 77		10.5	4.7	6.3	7.9	
Canada	Aug 77		4.8	4.3	5.6	5.2	

CURRENT ACCOUNT BALANCE ¹

Cumulative (Million US \$)

	Latest Period	Million US \$	Cumulative (Million US \$)		
			1977	1976	Change
United States ²	77 II	-4,605	-8,763	1,070	-9,833
Japan	Sep 77	1,142	6,473	1,815	4,658
West Germany	Sep 77	-647	159	956	-798
France	77 II	-438	-2,101	-2,052	-50
United Kingdom	77 III	911	-293	-2,011	1,719
Italy	77 I	-929	-929	-1,413	484
Canada	77 II	-1,412	-2,229	-3,088	859

¹ Converted to US dollars at the current market rates of exchange.

² Seasonally adjusted.

BASIC BALANCE ¹

Current and Long-Term-Capital Transactions

Cumulative (Million US \$)

	Latest Period	Million US \$	Cumulative (Million US \$)		
			1977	1976	Change
United States			No longer published ²		
Japan	Sep 77	611	4,398	1,732	2,666
West Germany	Aug 77	-927	-3,282	883	-4,165
France	77 I	-1,354	-1,354	-2,015	660
United Kingdom	76 IV	-277	N.A.	-4,171	N.A.
Italy	76 III	779	N.A.	1,096	N.A.
Canada	77 I	164	164	882	-718

¹ Converted to US dollars at the current market rates of exchange.

² As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

EXCHANGE RATES

Spot Rate

As of 4 Nov 77

	US \$ Per Unit	Percent Change from			
		19 Mar 73	1 Year Earlier	3 Months Earlier	28 Oct 77
Japan (yen)	0.0040	6.02	18.62	7.23	0.95
West Germany (Deutsche mark)	0.4432	25.15	6.27	1.69	0.24
France (franc)	0.2065	-6.31	3.25	0.46	-0.05
United Kingdom (pound sterling)	1.8040	-26.70	13.75	3.73	1.52
Italy (lira)	0.0011	-35.71	-1.64	0.26	0.09
Canada (dollar)	0.9019	-9.60	-12.36	-3.35	-0.27

TRADE-WEIGHTED EXCHANGE RATES ¹

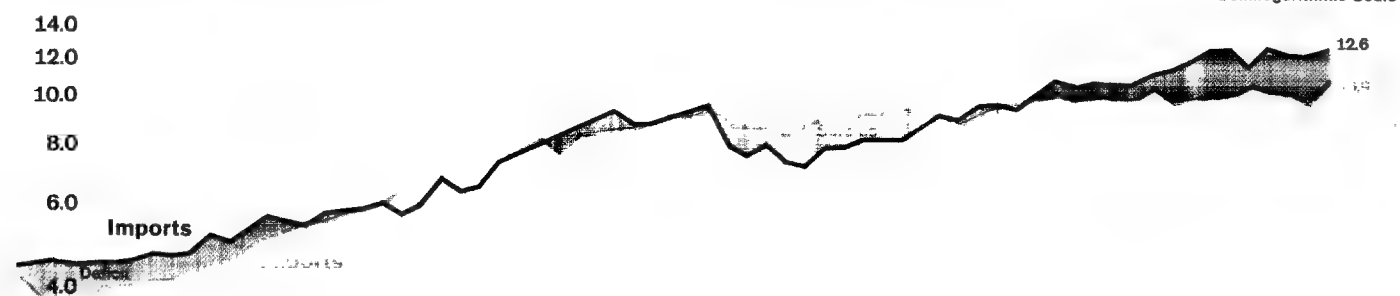
As of 4 Nov 77

	Percent Change from			
	19 Mar 73	1 Year Earlier	3 Months Earlier	28 Oct 77
United States	5.01	0.25	-0.67	-0.27
Japan	11.87	20.46	6.96	0.83
West Germany	27.80	3.94	1.12	0.10
France	-8.13	0	-0.67	-0.32
United Kingdom	-27.57	13.47	3.79	1.44
Italy	-39.43	-5.03	-0.82	-0.13
Canada	-8.26	-13.76	-3.94	-0.41

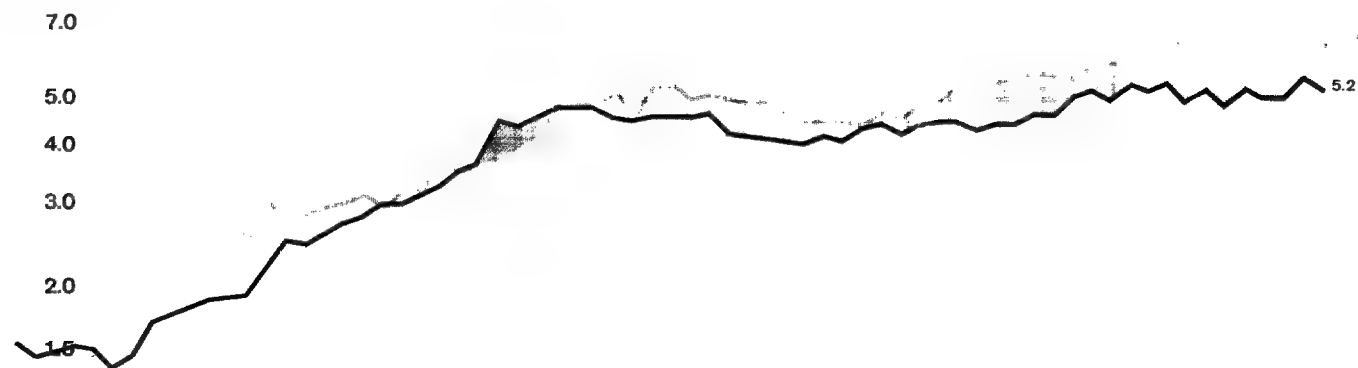
¹ Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

FOREIGN TRADE BILLION US \$, f.o.b., seasonally adjusted

United States



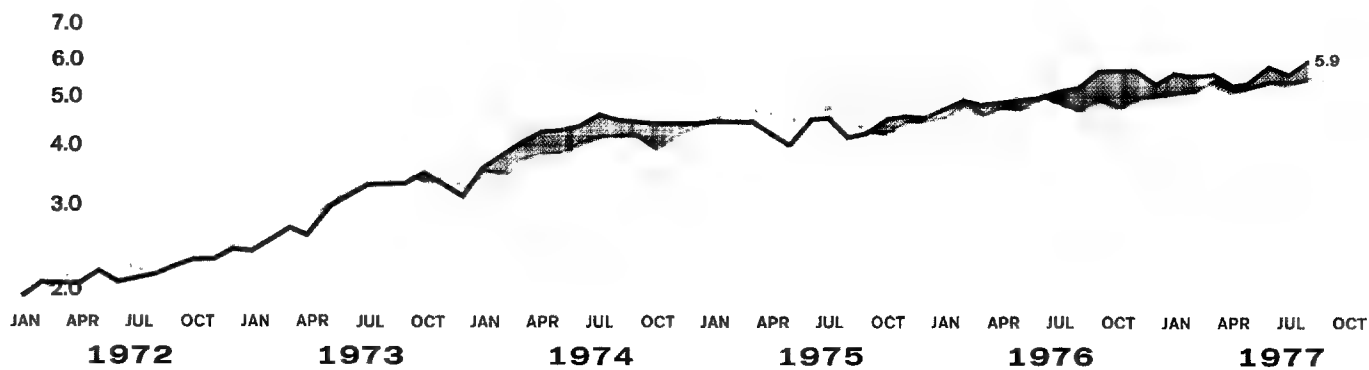
Japan



West Germany

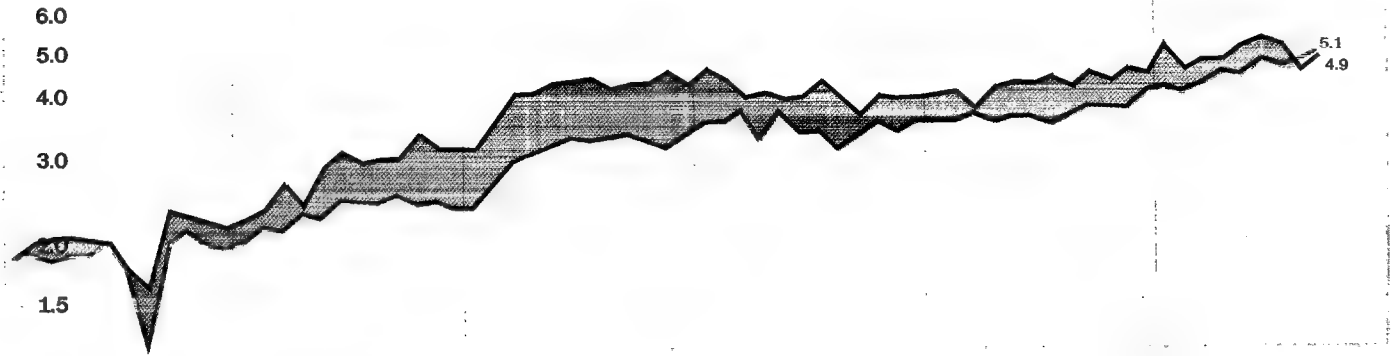
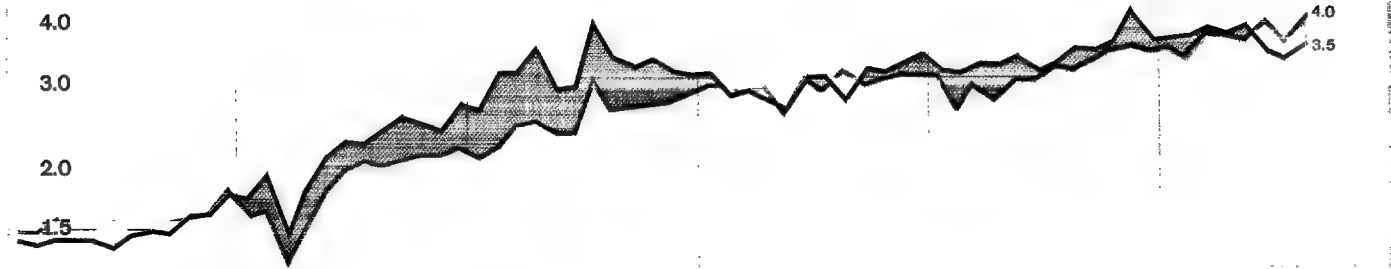


France



United Kingdom

Semilogarithmic Scale

**Italy****Canada**

JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT

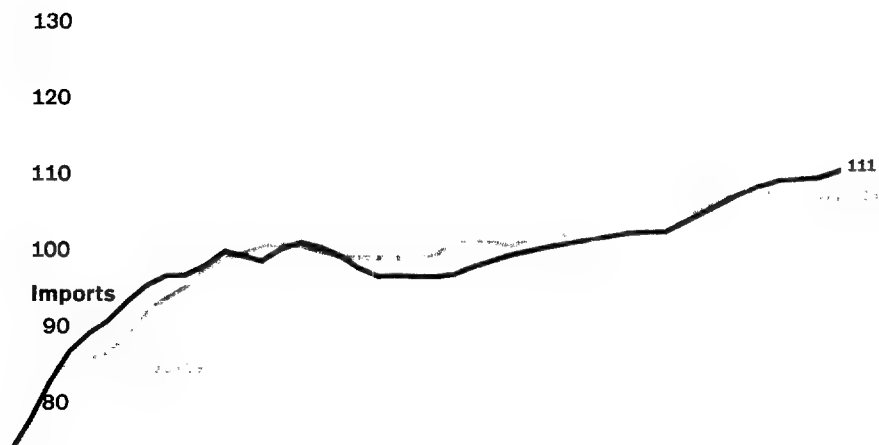
1972 1973 1974 1975 1976 1977

	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)				LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)		
			1977	1976	CHANGE				1977	1976	CHANGE
United States	SEP 77	10,916	90,584	85,171	5.4%	United Kingdom	SEP 77	5,095	41,159	32,650	26.1%
		<u>12,631</u>	<u>109,882</u>	<u>88,297</u>	<u>24.4%</u>			<u>4,936</u>	<u>44,196</u>	<u>37,511</u>	<u>17.8%</u>
	Balance	-1,715	-19,298	-3,126	-16,172		Balance	159	-3,037	-4,861	1,824
Japan	SEP 77	6,439	58,430	48,305	21.0%	Italy	AUG 77	4,022	29,216	23,305	25.4%
		<u>5,183</u>	<u>45,838</u>	<u>40,860</u>	<u>12.2%</u>			<u>3,489</u>	<u>29,071</u>	<u>25,696</u>	<u>13.1%</u>
	Balance	1,256	12,592	7,445	5,147		Balance	533	146	-2,391	2,537
West Germany	SEP 77	10,061	86,227	73,878	16.7%	Canada	JUL 77	3,570	24,281	21,994	10.4%
		<u>8,023</u>	<u>70,820</u>	<u>60,750</u>	<u>16.6%</u>			<u>3,243</u>	<u>23,263</u>	<u>22,127</u>	<u>5.1%</u>
	Balance	2,038	15,407	13,129	2,279		Balance	327	1,018	-134	1,152
France	AUG 77	5,510	41,964	37,453	12.0%						
		<u>5,888</u>	<u>44,174</u>	<u>39,000</u>	<u>13.3%</u>						
	Balance	-378	-2,210	-1,548	-662						

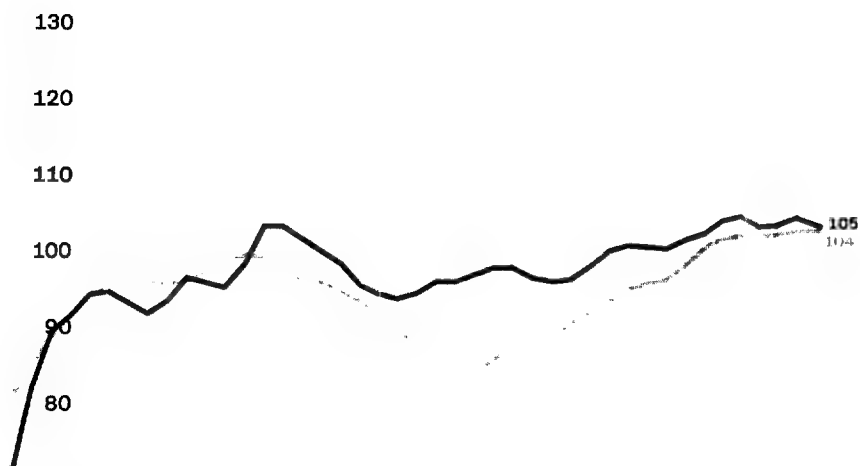
574443 11-77

United States

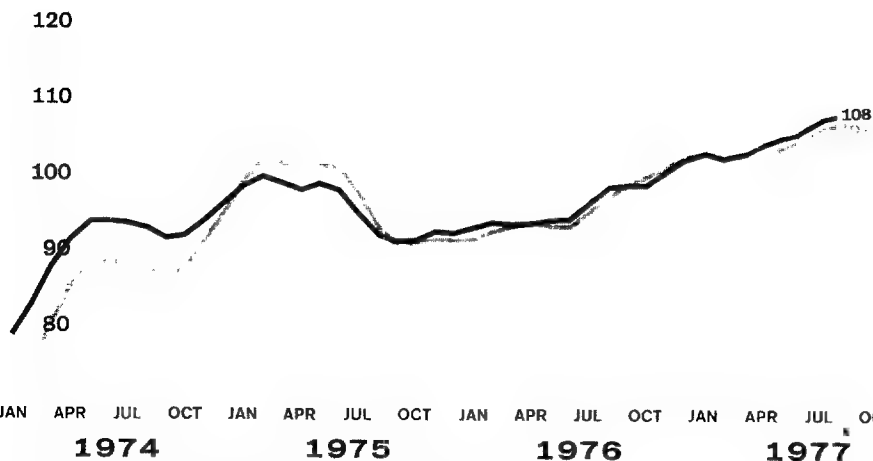
INDEX: JAN 1975 = 100



Japan



West Germany

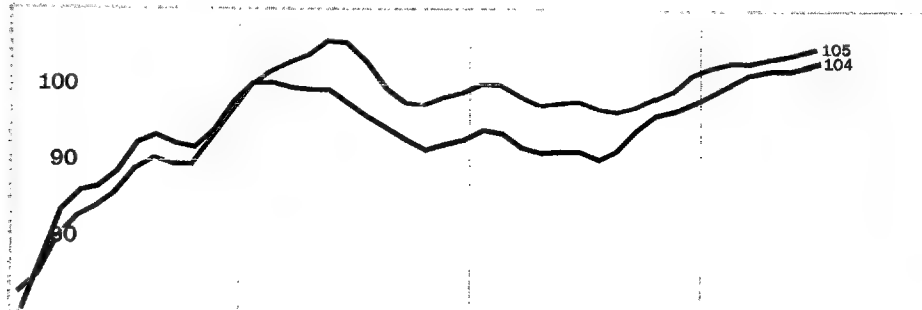


JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
1974 1975 1976 1977

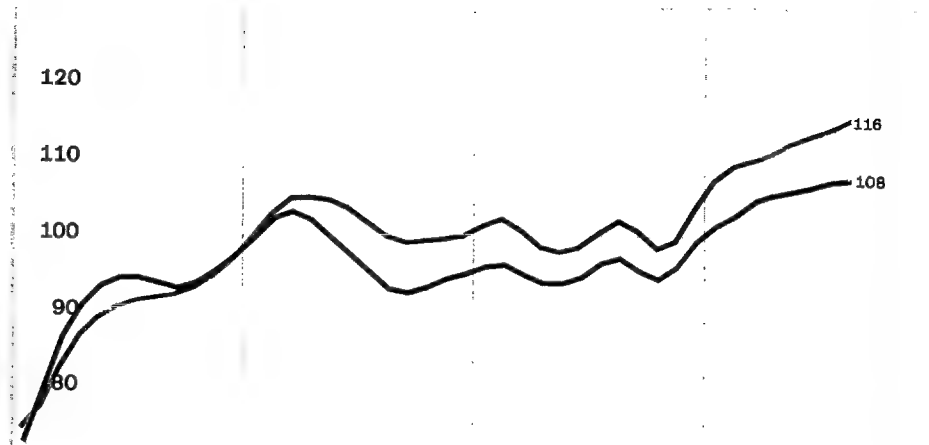
¹Export and import plots are based on five month weighted moving averages.

A-12

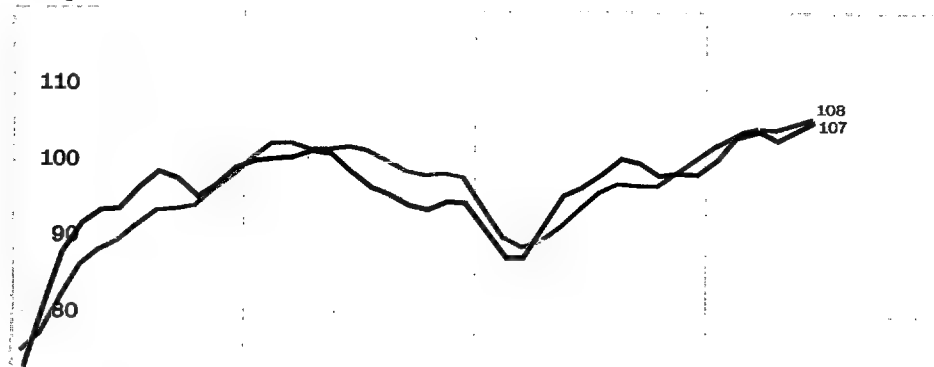
France



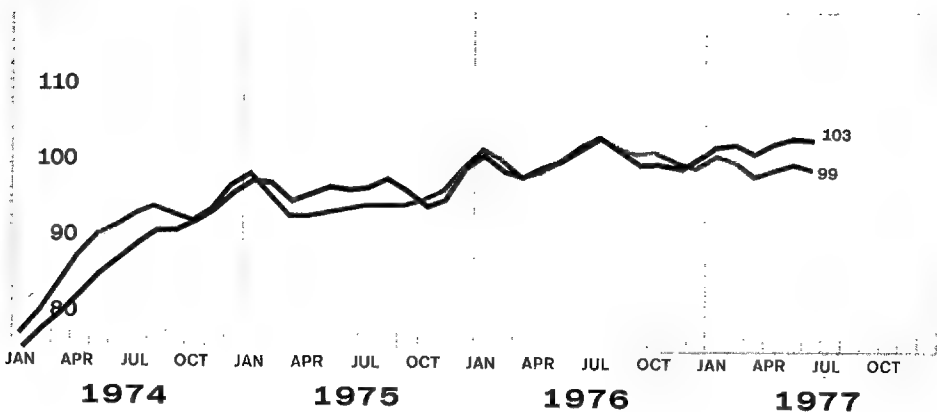
United Kingdom



Italy



Canada



SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION ¹

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1 Year		
			1970	Earlier	3 Months Earlier ²
Brazil	76 II	0.1	11.0	10.7	0.4
India	Mar 77	-0.7	5.3	9.0	20.7
South Korea	Jun 77	8.2	22.7	14.5	22.6
Mexico	May 77	1.9	5.9	2.4	27.1
Nigeria	76 IV	0.2	11.3	9.0	0.7
Taiwan	Aug 77	-2.9	12.9	1.2	-14.9

¹ Seasonally adjusted.² Average for latest 3 months compared with average for previous 3 months.MONEY SUPPLY ¹

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			1 Year	
			1970	Earlier
Brazil	May 77	1.5	36.3	41.7
India	May 77	0.4	12.2	17.8
Iran	Jun 77	-4.5	28.8	26.5
South Korea	Jul 77	1.9	31.6	39.6
Mexico	Jun 76	-0.3	17.0	16.6
Nigeria	Feb 77	5.9	35.9	54.8
Taiwan	Jul 77	1.4	24.4	27.1
Thailand	May 77	1.5	13.5	13.0

¹ Seasonally adjusted.² Average for latest 3 months compared with average for previous 3 months.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			1 Year	
			1970	Earlier
Brazil	Aug 77	1.9	27.0	43.2
India	May 77	1.6	8.3	9.7
Iran	Jul 77	0.9	12.5	29.9
South Korea	Aug 77	1.3	14.6	9.7
Mexico	Jul 77	1.1	14.7	32.9
Nigeria	Mar 77	3.4	14.9	13.6
Taiwan	Aug 77	5.6	11.4	12.3
Thailand	Aug 77	1.1	8.7	9.9

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			1 Year	
			1970	Earlier
Brazil	Aug 77	0.9	27.2	37.0
India	Jun 77	0.6	9.5	9.5
Iran	Jul 77	-1.3	10.6	19.9
South Korea	Aug 77	0.7	16.3	9.2
Mexico	Jul 77	0.7	16.4	48.2
Taiwan	Aug 77	0.5	9.1	4.2
Thailand	Jul 77	1.0	10.1	7.1

EXPORT PRICES

US \$

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since	
			1 Year	
			1970	Earlier
Brazil	Jul 77	-12.4	16.3	28.4
India	Feb 77	8.0	10.4	8.9
Iran	Jul 77	0	35.5	18.7
South Korea	77 I	1.7	8.8	11.9
Nigeria	May 76	-0.1	27.3	12.3
Taiwan	Jul 77	0.6	12.4	9.7
Thailand	Dec 76	2.0	13.3	13.1

OFFICIAL RESERVES

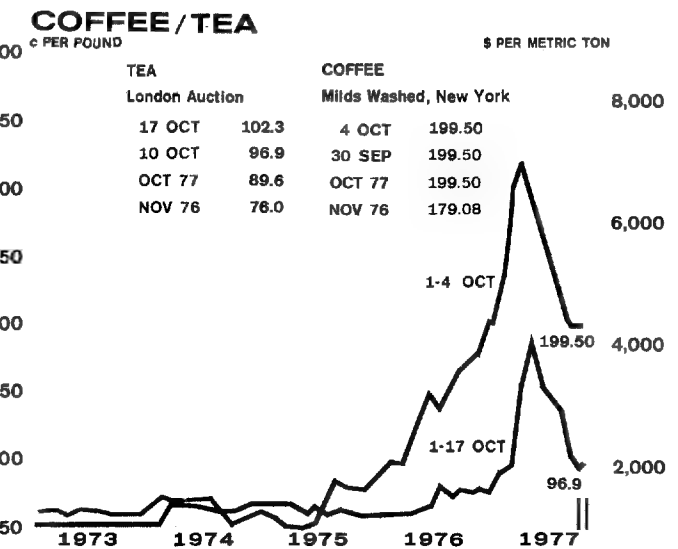
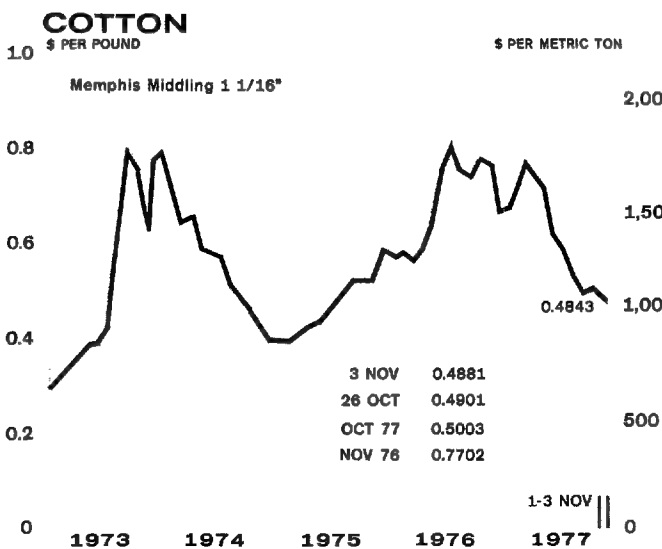
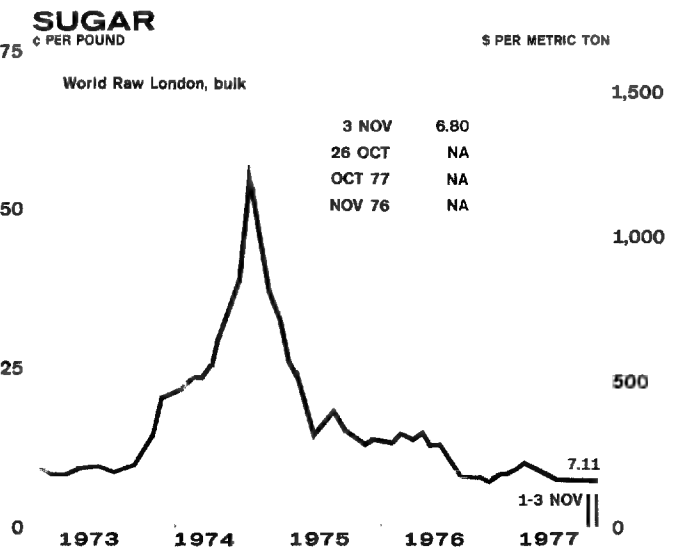
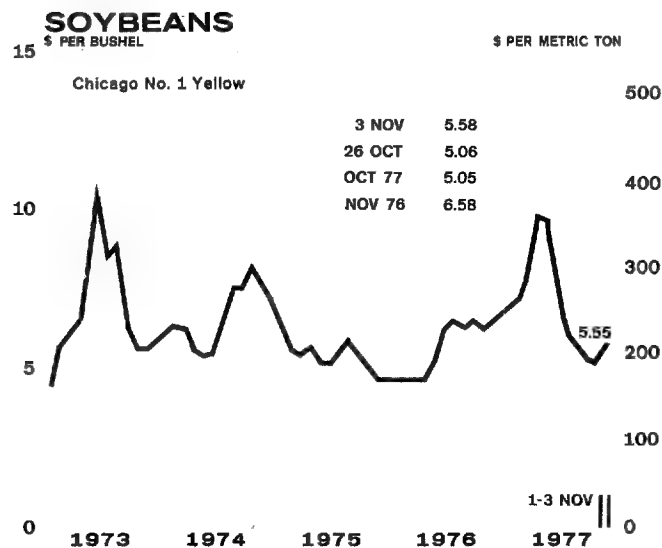
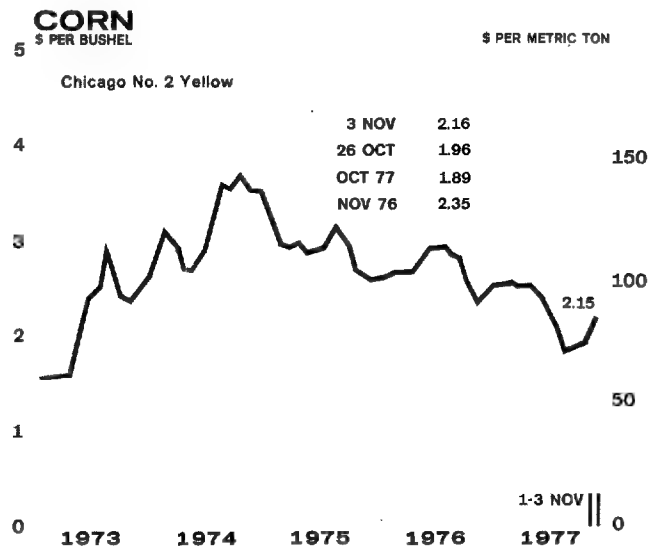
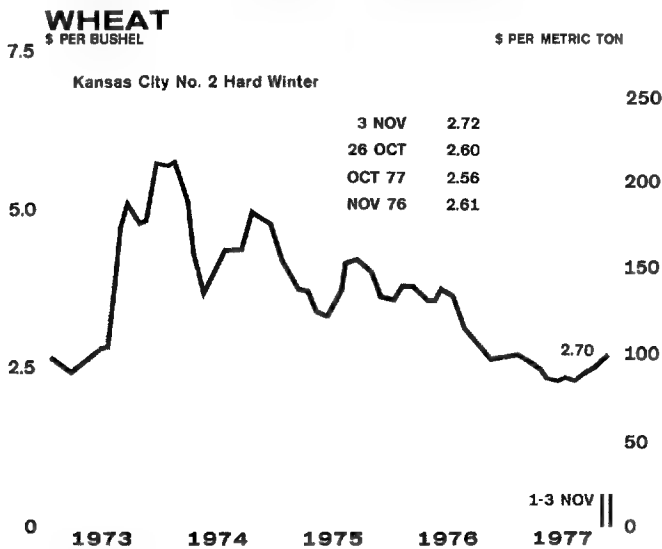
	Latest Month	End of Month	Million US \$	Million US \$		
				1 Year		
				Jun 1970	Earlier	3 Months Earlier
Brazil	May 77	May 77	5,808	1,013	3,401	5,878
India	Jul 77	Jul 77	4,395	1,006	2,665	4,134
Iran	Aug 77	Aug 77	11,561	208	9,057	11,460
South Korea	Jul 77	Jul 77	3,656	602	2,128	3,247
Mexico	Mar 76	Mar 76	1,501	695	1,479	1,533
Nigeria	Jun 77	Jun 77	4,663	148	5,885	4,931
Taiwan	Aug 77	Aug 77	1,416	531	1,586	1,331
Thailand	Aug 77	Aug 77	1,992	978	1,990	2,005

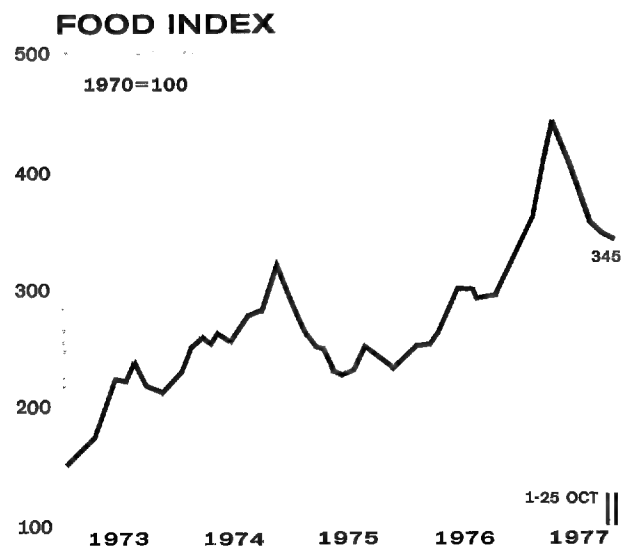
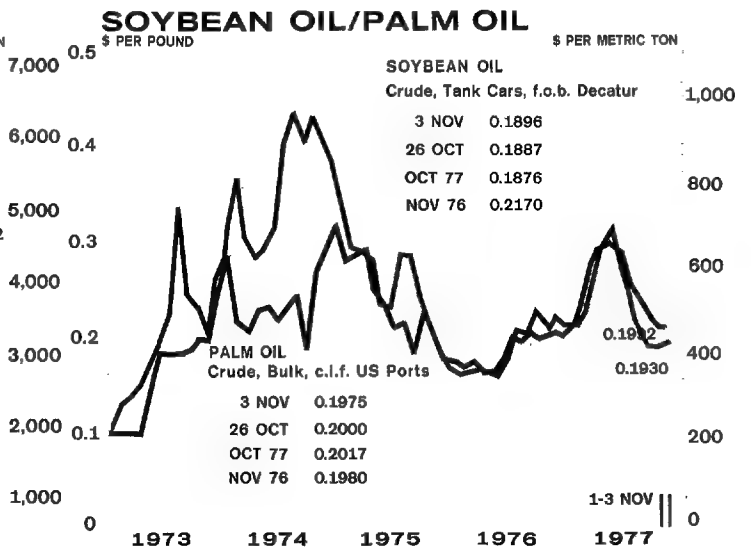
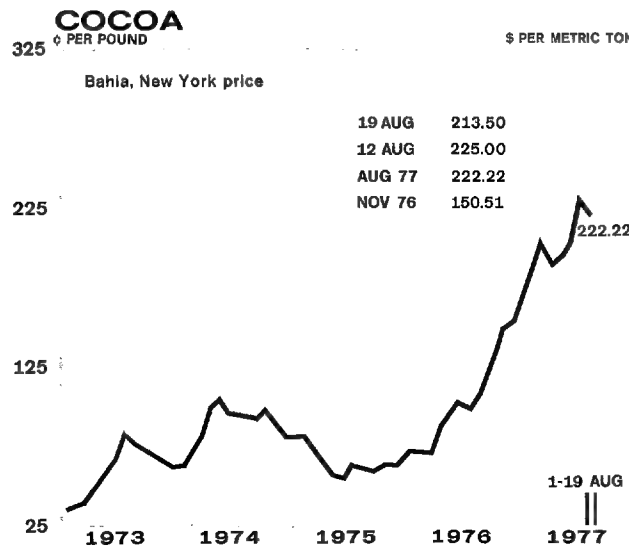
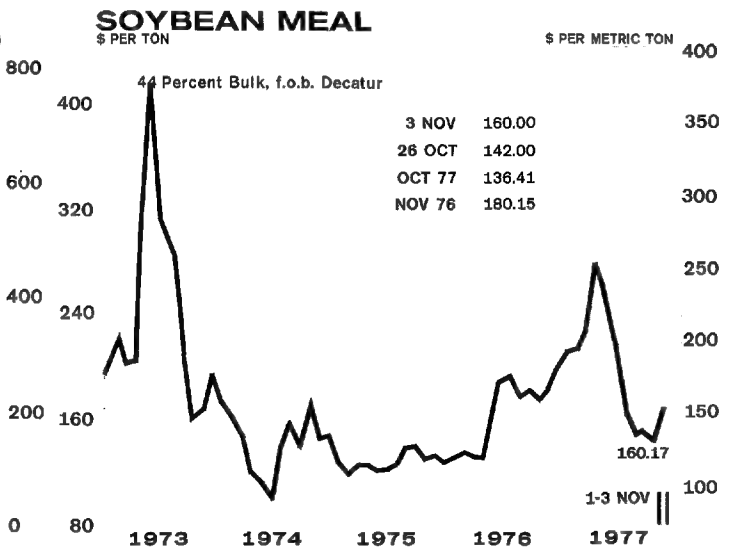
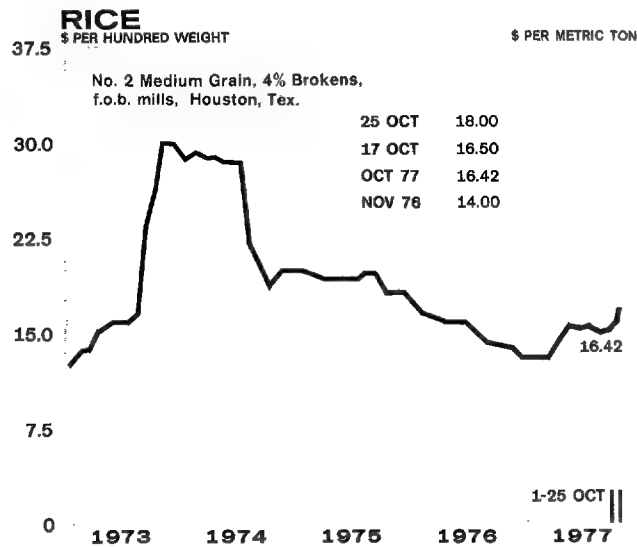
FOREIGN TRADE, f.o.b.

			Latest 3 Months Percent Change from		Cumulative (Million US \$)		
Latest Period			3 Months Earlier ¹	1 Year Earlier	1977	1976	Change
Brazil	Jul 77	Exports	110.6	27.2	7,225	5,312	36.0%
	Jul 77	Imports	22.8	-2.0	6,873	6,989	-1.7%
	Jul 77	Balance			352	-1,677	2,029
India	May 77	Exports	41.3	10.3	2,288	2,082	9.9%
	May 77	Imports	-47.5	1.8	1,810	1,770	2.2%
	May 77	Balance			478	312	167
Iran	Jul 77	Exports	-32.5	-1.9	13,733	12,829	7.0%
	Jun 77	Imports	-14.5	-6.0	6,346	6,274	1.2%
	Jun 77	Balance			5,598	4,695	904
South Korea	Jul 77	Exports	75.1	17.6	5,352	4,155	28.8%
	Jul 77	Imports	63.9	17.5	5,428	4,437	22.4%
	Jul 77	Balance			-76	-281	205
Mexico	Jun 77	Exports	17.1	25.3	2,162	1,661	30.2%
	Jun 77	Imports	73.5	-21.5	2,340	2,971	-21.2%
	Jun 77	Balance			-178	-1,310	1,132
Nigeria	May 77	Exports	22.9	24.5	1,965	1,570	25.2%
	Dec 76	Imports	86.7	8.4	2,531	1,990	27.2%
	Dec 76	Balance			1,502	1,102	399
Taiwan	Aug 77	Exports	95.9	14.7	5,872	5,191	13.1%
	Aug 77	Imports	8.2	11.1	5,116	4,544	12.6%
	Aug 77	Balance			756	647	109
Thailand	Apr 77	Exports	34.3	22.9	1,221	963	26.8%
	Apr 77	Imports	18.9	23.2	1,251	1,035	21.0%
	Apr 77	Balance			-30	-72	41

¹ At annual rates.

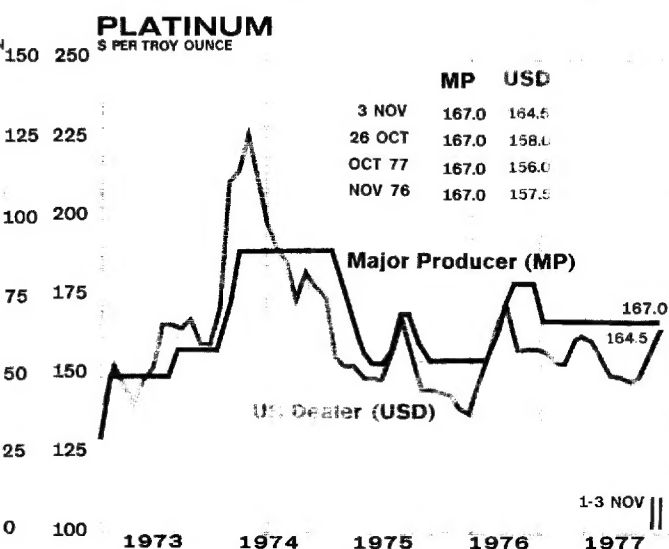
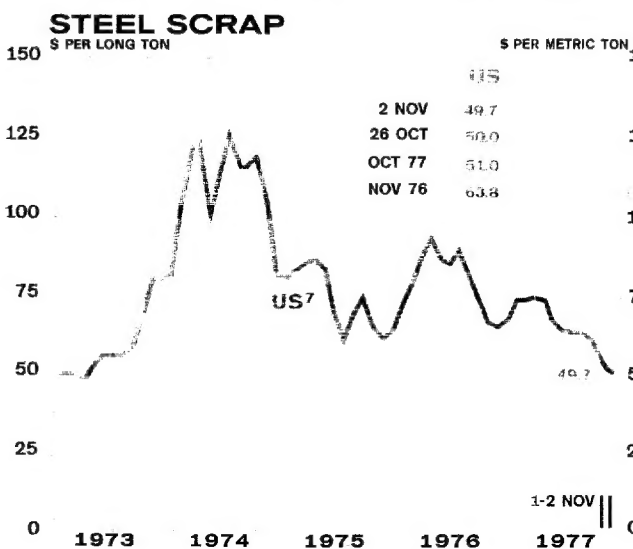
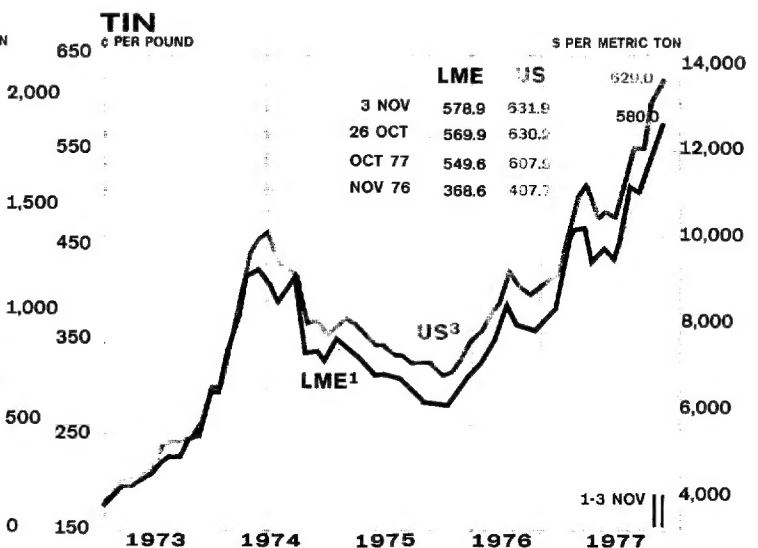
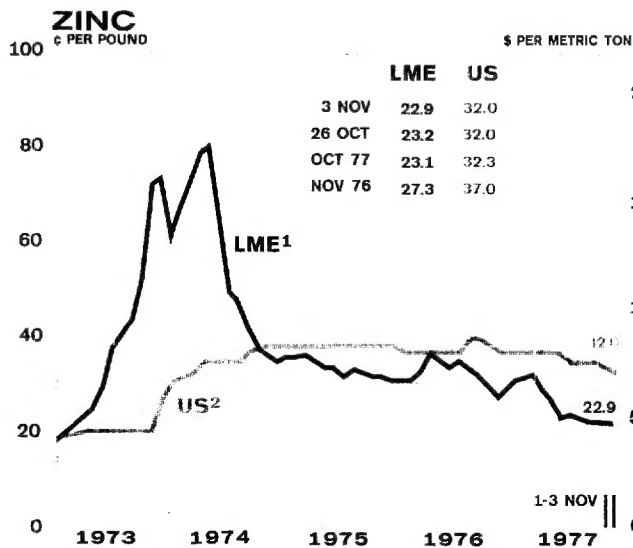
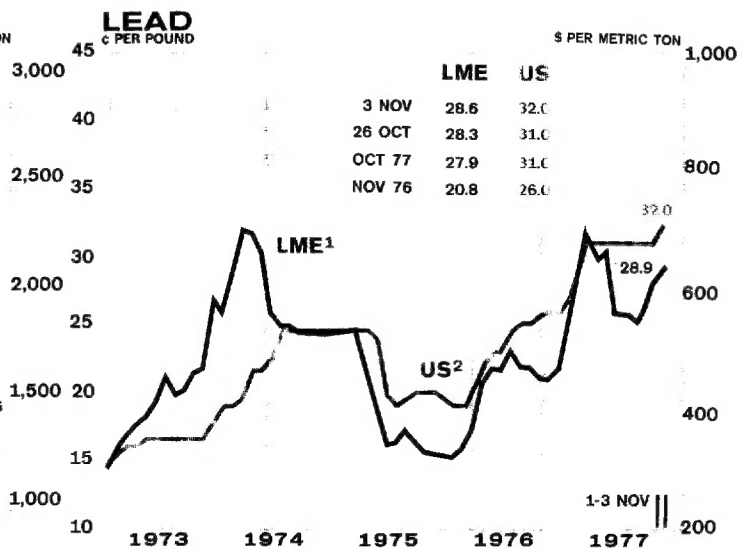
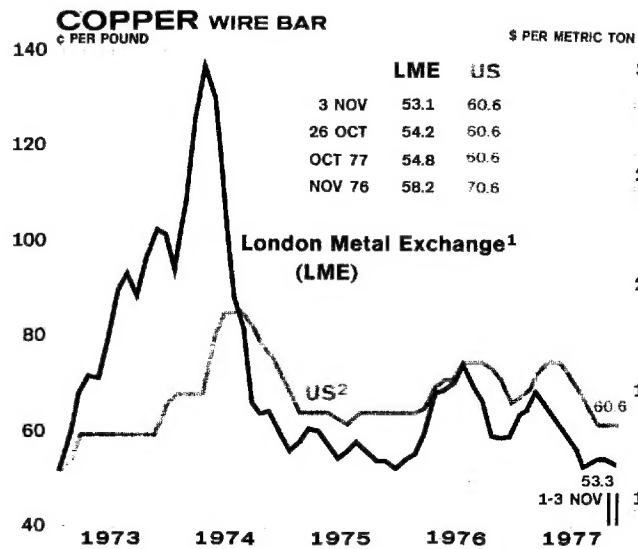
AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE





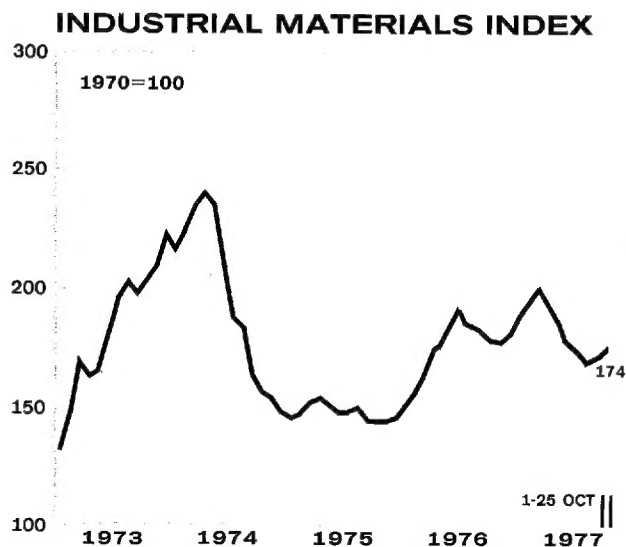
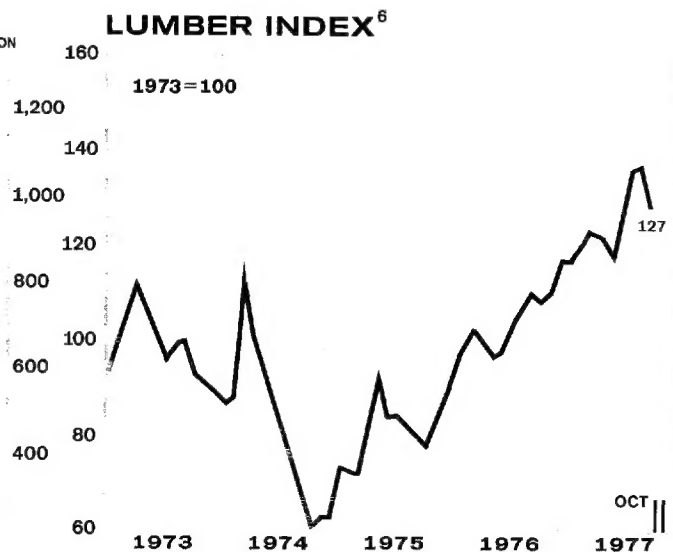
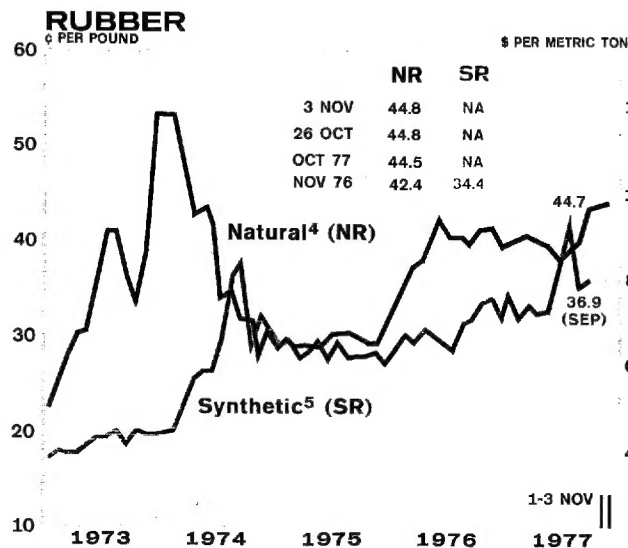
NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

574445 11-77

INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE

SELECTED MATERIALS

			CURRENT	MAY 77	NOV 76	NOV 75
ALUMINUM	Major US Producer	£ per pound	53.00	51.00	48.00	41.00
US STEEL	Composite	\$ per long ton	359.36	339.27	327.00	306.72
IRON ORE	Non-Bessemer Old Range	\$ per long ton	21.43	21.43	20.51	18.75
CHROME ORE	Russian, Metallurgical Grade	\$ per metric ton	150.00	150.00	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	\$ per long ton	58.50	58.50	42.00	44.50
FERROCHROME	US Producer, 66-70 Percent	£ per pound	41.00	43.00	43.00	53.50
NICKEL	Composite US Producer	\$ per pound	2.16	2.40	2.41	2.20
MANGANESE ORE	48 Percent Mn	\$ per long ton	72.24	72.00	72.00	67.20
TUNGSTEN ORE	65 Percent WO ₃	\$ per short ton	10,260.25	10,804.92	8,455.38	5,049.57
MERCURY	NY	\$ per 76 pound flask	140.00	141.90	134.50	125.26
SILVER	LME Cash	£ per troy ounce	483.77	469.85	436.90	431.93
GOLD	London Afternoon Fixing Price	\$ per troy ounce	162.07	146.60	130.44	142.42



¹Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

²Producers' price, covers most primary metals sold in the US.

³As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

⁴Quoted on New York market.

⁵S-type styrene, US export price.

⁶This index is compiled by using the average of 13 types of lumber whose prices are regarded as "bell wethers" of US lumber construction costs.

⁷Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

574446 11-77

Next 43 Page(s) In Document Exempt

